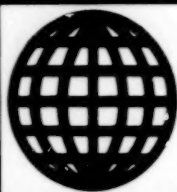


JPRS-UWE-89-009  
23 AUGUST 1989



**FOREIGN  
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# ***JPRS Report***

# **Soviet Union**

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***WORLD ECONOMY &  
INTERNATIONAL RELATIONS***

No 4, April 1989

# Soviet Union

## WORLD ECONOMY & INTERNATIONAL RELATIONS

### No 4, April 1989

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[The following is a translation of the Russian-language monthly journal *MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA* published in Moscow by the Institute of World Economy and International Relations of the USSR Academy of Sciences. Refer to the table of contents for a listing of any articles not translated]

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## WORLD ECONOMY & INTERNATIONAL RELATIONS

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### Summaries in English of Major Articles

18160009a *MIROVAYA EKONOMIKA I MEZH-DUNARODNYYE OTNOSHENIYA* in Russian  
No 4, Apr 89 pp 158-159

[Text] "The Center and Periphery of the World Capitalist Economy." This article by A. Solonitsky approaches one of the most interesting and complicated issues of modern economics. Since a comprehensive analysis of the relationships between the center and the periphery of the world capitalist economy is possible only in the context of a deep investigation into general laws, contradictions and specific forms of the world economic development, with due account for the peculiarities of the economic evolution of individual capitalist nations and entire regions, the author restricts his task to the review of a number of issues. First, he attempts to define the character and certain types of western economic cooperation with the Third World, showing that this process embraces various heterogeneous and complex trends which originate in the different parts of the world capitalist economy. The national economies, which form the fabric of the capitalist world, can be listed according to their economic potentials, levels of social development and the degree of integration in the world capitalist economy. This analysis reveals the inadequacy of the two-pole model of developed and developing countries the relations of which are characterized by continuous confrontation. Second, the article gives a thorough review of the national banks and corporations. The author analyzes the prospects of the future evolution in this direction, taking into account the growing differentiation between the third world countries. In doing so the author proceeds from the assumption that the transnational banks and corporations rely on the laws of the world market and the leverages of international economic organizations, thus creating a mechanism of autoregulation of the world capitalist economy.

"Humanization and Democratization of International Relations." Written by E. Pozdnyakov and I. Shadrina, this unorthodox article will undoubtedly capture the attention of both experts and the general reader, since the authors try to answer one of the most burning issues of today—whether humanization and democratization of international relations are not a wishful thinking but

the realistic goals of mankind. The international relations since time immemorial represent a continuous chain of conflicts, wars, mutual hatred, confrontations and bloodshed the death toll of which amounts to millions and millions of people, not to mention the destruction of the material wealth.

Nevertheless, the developments in the world politics during the last twenty five years indicate that the idea of humanization and democratization of international relations is gaining worldwide support and popularity. This became possible due to the realities of the nuclear age that has produced the threat of man's self-destruction, a growing tendency towards interdependence of nations in all spheres of life, and the aggravation of the global problems that has undermined man's firm belief in his superiority over nature.

Proceeding from the above consideration, the authors give a detailed and well-written analysis of the problem and the possible ways and means for the attainment of this lofty objective of mankind.

"Our Quarterly Review: Political Forecasts". Three separate pieces published in this section of the journal have one common feature—they attempt to peep into the future and forecast political and economic developments both in the USA and Western Europe.

What are the prospects for the development of the Soviet-American relations under the Bush Administration? What are the economic, domestic and foreign political factors which determine US policies toward the Soviet Union? What are the specifics of the evolution of political stereotypes about the relations with the Soviet Union and security issues? These and many other problems are thoroughly discussed in the material prepared by the Department of North American Studies (IMEMO).

The second publication—offered by a team of experts of the Department of West European Studies (IMEMO)—highlights possible consequences of the formation of a joint market within the framework of the European Communities. Analyzing the program mapped out by the European Communities, the authors place specific emphasis on possible consequences of further economic integration both for the community member states and the socialist nations of Europe.

The third material written by Dr. G. Burduli, a researcher from Tbilisi, reviews various aspects of the revival of the West European Alliance. His brief but thorough paper outlines the main factors which account for the new developments in the alliance and its future role.

"Reflections on the CMEA Restructuring". This article written by M. Maksimova, deals with the problems encountered by the Council of Mutual Economic Assistance (CMEA or Comecon, as it is known to the foreign reader) during the forty years of its operation.

No one can dispute the constructive role of the CMEA in shaping and promoting economic cooperation of the socialist countries and developing their diversified national economies. At the same time there is a growing dissatisfaction with the efficiency of this cooperation within the socialist community of nations, since it does not help to overcome their current domestic problems in the field of economy and generates new difficulties and imbalances. The comprehensive programs of cooperation aimed at scientific and technological progress of the member countries remain practically unrealized.

What are the causes of these and other negative phenomena? In the author's view the present situation is caused by objective reasons—i.e., the crisis or precrisis state of the national economies of the CMEA member states. The main factor that accounts for numerous difficulties encountered by the organization today lies in the fact that the mechanism of economic cooperation, the structure, functions and activities of the council do not correspond to the radical changes which are currently under way in some member countries.

The author does not limit herself to an analysis of the difficulties but maps out three possible variants of a long-term strategy of the community's economic development. Her ideas will help the reader understand better a new type of economic thinking emerging in the academic community.

"High Technologies and the Economy of the Asia-Pacific Region". The reviewed article by I. Tselishchev gives an in-depth account of the proceedings and deliberations of the seventeenth Pacific Trade and Development Conference. Analyzing the agenda of the conference and the topics raised, the author groups the issues in two main categories. The first one deals with specialization and division of labor of the Asian and Pacific nations, and their interaction in the field of high technology. The second area covers the forms and patterns of R & D efforts, application of high technologies, and the role of foreign economic ties in promoting hi-tech industries.

Analyzing the developments in the economy of the four newly industrialized countries (South Korea, Taiwan, Singapore, and Hong Kong), the author concludes that NICs increasingly rely on the development of technology-intensive industries which require more capital investments and are characterized by higher quality standards and the employment of skilled labor. In fact, in some areas they are capable of competing with Japan and the USA, including the quality of products.

The economic development of the region is facilitated by an active involvement of foreign capital, Japanese and American above all. Yet another conclusion is that the established concept of the capitalist economy consisting of the center and the peripheral regions is no longer valid. The participants in the conference specifically emphasized the role of the flying geese concept according to which the developed nations, newly industrialized countries and their ASEAN counterparts go in their development through a series of successive phases of economic evolution.

Apart from the above issues the author highlights many other topics discussed at the conference, giving the reader first-hand information about regional achievements and difficulties.

"The State and Social Progress in African and Asian Countries." This article by I. Zevelev and A. Kara-Murza continues the discussion of the problems of the socialist orientation of developing nations. While recognizing the achievements of the Soviet school of oriental studies in analyzing the formational and cultural specifics of the development of newly liberated states, the authors also point out that many publications which appeared during the last two decades have produced various socio-political myths and illusions about socialist potentials in oriental countries. No adequate scientific explanation was given, for instance, of the reasons that led to the emergence and consolidation of socialism in the countries which were far from being advanced in their economic and social development.

Proceeding from the above considerations, the authors give a comprehensive and scientifically credible analysis of the problem, placing specific emphasis on the role of the state in social advancement of newly liberated countries.

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"Mirovaya ekonomika i mezhdunarodnyye otnosheniya", 1989

#### Reexamination of Western-Third World Economic Relations

18160009b Moscow MIROVAYA EKONOMIKA I  
MEZHDUNARODNYE OTNOSHENIYA in Russian  
No 4, Apr 89 pp 5-17

[Article by Aleksandr Sergeyevich Solonitskiy, candidate of economic sciences; chief, Sector of Foreign Economic Relations, Center for Developing Countries and the Nonalignment Movement, Institute of World Economics and International Relations, USSR Academy of Sciences: "Center and Periphery in the World Capitalist Economy"]

[Text] A thorough, in-depth evaluation of the interrelationships between the center and the periphery in the world capitalist economy (WCE) is possible only in the



context of the analysis of general patterns, contradictions, and specific forms of world economic development with due regard to the evolution of the regional and national units that comprise the WCE. It is obvious that such a vast complex of problems is more than one researcher can handle and that it cannot be presented in one or even several publications. The present article therefore pursues a more modest goal. First, its author tries to define the nature and several forms of the interaction of the West with the Third World and to show that this process forms from very heterogeneous, dissimilar, complex trends that influence one another and that are generated in various parts and subdivisions of the WCE. National economies operating within the framework of the international division of labor can according to the criteria of their economic potential, level of social development, and degree of integration in the WCE be made into a long chain with several groups of links, which makes the bipolar model of developed and developing countries in a state of continuous confrontation inappropriate. Second, the article characterizes the principal driving force of the world economic relations of countries belonging to the "periphery" in the person of TNC's and TNB's and evaluates the prospects for further development in this direction considering growing differentiation within the Third World. In so doing, the author proceeds from the premise that TNC's and TNB's are the main "organizers" of the system of interconnected WCE's, that they create the mechanism for self-tuning the WCE based on regularities in the world market and using the levers of international economic organizations.

#### **Opposing Groupings or a Complex Diffuse Structure?**

Analysis of the interrelations of developed and developing countries usually begins with the comparison of these two parts of the world community, as separate although unequal economic groupings. Their shares in the volume of production and the foreign economic activity of the WCE are compared and reciprocal flows of material and financial resources are evaluated. As a result, the interrelationships between them are perceived as relations between groups, each of which possesses an internal unity and has a general economic potential—natural, human, technical resources, their own budget, etc. Therefore, not withstanding all the qualifications about the heterogeneity of the Third World, in our mind it continues to be a whole complex in the WCE, a unified partner, but more frequently—the opponent of the principal capitalist countries that in such cases are combined under the general rubric "imperialism."

The methodology for analyzing relations between the basic groups of countries in the world economy is distorted by such stereotypical formulations as "neocolonial exploitation of liberated countries by imperialism," "the prosperity of the rich North based on the plundering of the poor South," "the elimination of economic backwardness and dependency is possible only by withdrawing from the capitalist economic system."

The image of our unconditional ally in the person of liberated countries, that in "the anti-imperialist struggle" could supposedly weaken world capitalism and strengthen socialism's world economic positions accordingly, accompanied the image of the enemy in the person of the West. Within the framework of these stereotypes, there is the view that Third World countries, in the event of an internal socio-political reorientation, enter into active struggle with the West and begin restructuring the system of their external relations. However, experience shows that the prospect for the development of countries belonging to "periphery," including countries with a socialist orientation, is to a considerable degree connected specifically with the effective use of various forms and directions of world economic relations.

The division of the WCE into two groups of countries reflects the actual existence of historically concrete international socioeconomic communities, but this does not by any means indicate that they interact like two united formations that are strictly separate from one another. Relations between them are more adequately and precisely described by the concepts center and periphery in the WCE, according to which, countries that are leaders in science and technology, that have a market economy, and that are to a substantial degree consolidated by transnational capital, have a broad but uneven network of direct and indirect relations with an enormous, very heterogeneous mass of developing countries. This entire mass bears the historic stamp of colonial infringement. What is more, the majority of liberated countries is characterized by such common features as socioeconomic underdevelopment, low living standard, high share of traditional structures in the economy, etc. These factors are responsible for one or another measure of infringement of the economic development of countries belonging to the "periphery" and as a rule weaken their positions in world markets for commodities, services, and capital and in a number of cases predetermine the "higher price" of participating in world economic relations. The point here is the inequality specifically of conditions and not of rights. Thus, the developing countries do not make sufficiently effective use of international credit that is capable of securing the relatively low return there owing to the lack of development of the system of commodity-monetary relations, deep structural disproportions in the economy, defects in economic policy, the vast scale of embezzlement of state funds, etc.

Nevertheless, I emphasize once again that these features of nondevelopment and infringement do not create the basis for the real economic consolidations of countries belonging to the periphery. The fact that they have a complex of identical or similar features that appear as such especially when contrasted with the basic features of the leading countries in today's industrial civilization, makes it possible to use the term Third World in scientific literature to denote a certain aggregate of countries that has formed on the basis of the communality of their historical fate. The image of the Third

World, as a unified whole against the community of industrially developed capitalist countries, is the fruit of outdated views and ideological principles. With the passage of time and with the realization of the latest trends in the development of the WCE, such views correspond less and less to reality.

The understanding of the interaction of developed and developing countries as the struggle between two forces formed during the period of disintegration of the colonial world economic system and the period of formation of new independent countries that were unified at that time by the phenomenon of the national liberation movement. The further strengthening of their political and economic sovereignty was evaluated almost exclusively as the result of positions they had won away from imperialism. In this connection, the energy-raw materials boom of the mid-seventies was perceived by many as the success of the entire Third World while the "revolution in prices" of oil and a number of scarce raw materials was regarded as evidence of the growth of its general "anti-imperialist" potential and the pledge of solidarity in the fight to alter the role of the developing countries in the world community.

Significant resonance was subsequently generated by the advancement of a free list of demands on the new international economic order as the single platform of the Third World. The struggle of the developing countries for this program and the action of their collective diplomacy at international forums, being points of no little importance in the political confrontation between different forces of the world community have constantly created the illusion that the Third World and the West interact as collective economic partner-opponents.

And finally, in the present 10-year period, given the significant deterioration of the international economic positions of many liberated countries, the picture of interrelations between the two parts of the WCE is symbolized by the burden of debt: the financial indebtedness of the entire developing world to all the West is over \$1 trillion.

Thus, in various stages of development of the WCE, the two given groups of countries have invariably been perceived as opposing subjects, each of which was trying to undermine the position of the other.

However, the need for the real assessment of the present situation and the prospects for the development of world economic relations requires the more precise assessment of certain postwar trends in the development of the WCE that give a slightly different picture of the nature of the interrelationships between developed and developing countries. The disintegration of the colonial system radically altered the political status or the political potential of Afro-Asian and Latin American countries, and made them an object of world politics. At the same time, for the WCE as a whole, this historical event marked the transition to a new level of development and

was in the nature of a fundamental breakthrough which to some degree became possible with the development of contradictions between the leading countries, with the weakening of the mother countries, and with the dramatic expansion of U.S. international positions. A large part was also played by the accelerated development of monopolies with the most progressive technologies, the expansion of which was hampered by the boundaries of colonial empires, and the activity of colonial-type, conservative companies, by the "dependent" forces of world capitalism that was based on the mother country's administrative system.

The disintegration of the WCE colonial system corresponded to the new level of internationalization of production. It stimulated the growth of the productive forces to a considerable degree and cleared the way for the formation of transnational capital. The institutionalization of the developing countries, which substantially changed the socioeconomic face of many of them and their place in the international division of labor, and the expanding sphere of activity of traditional capital were a new element in the development of the WCE.

The need for proper orientation on the complex gamut of socioeconomic relations between different parts of the world community also requires the more precise definition of such a figurative (as it appears in our literature) concept as neocolonialism.<sup>1</sup> Obviously it can be used in scientific parlance only to characterize the actual way that is used to draw the developing countries into the world capitalist economic system—in a certain sense, the forcible extension of the conditions of functioning of international capital to these countries. It is specifically the economic patterns of change in the types of international specialization of the developing countries as the periphery of the WCE that create the image of neocolonialism-colonialism under present conditions, in other words, that provide a basis for speaking of economic dominance and subordination.<sup>2</sup> This does not in any way mean that the centers of capitalism control all developmental processes in liberated countries or block the possibility of strengthening their economic independence.

#### **The Interaction Between Developed and Developing Countries in the Light of World Economic Processes**

It seems important to trace the way different forms of relations and cooperation between developed and developing countries become a part of the general fabric of the system of relations of the WCE and are corrected by processes of its development.

Overfalls [*perepady*] dating back to 1973 are very characteristic in this regard in the system of interrelations between the center and periphery of the WCE. Thus, the increasing dependency of developed countries on deliveries of raw materials and fuel from the developing regions was the main feature in the development of these interrelations in the mid-seventies. Moreover, the OPEC

group was equated with the entire Third World, but no significance was as a rule attached to the depressing impact of oil prices on many developing countries. The knot of contradictions that originated then was untied by the sequence of a long series of events in the development of the WCE that had unforeseen results. Certain threads have stretched from their to the present day as if connecting two different situations in interrelations between the center and periphery of the WCE and marking the role and place of different countries in the system of causes and effects that have led to the present state.

As is known, the higher prices of fuel and raw materials promoted the intensification of commodity exchange between certain groups of countries, first, in view of the attempt of the majority of capitalist and developing countries to compensate the higher cost of importing raw materials and energy by increasing imports; second, as a result of the expanded import potential of fuel suppliers; third, because of the substantial increase in the need for equipment on the part of countries that have stepped up the development of their natural resources and countries that have forced the production of goods for export under the given conditions. All these causes and effects have appreciably intensified the industrialization of liberated countries that dated back to the '60's.

At the same time, the oil and raw materials crises in the mid-seventies disrupted the WCE's very favorable oil and mineral raw materials supply situation, which gave impetus to the technological modernization of industry and stimulated the trend toward the formation of the energy- and materials-saving type of production.

But this fact notwithstanding, the production of raw materials has continued to grow. The successes of raw materials [producing] countries in affirming national sovereignty over natural resources, which has been expressed in the large-scale nationalization of foreign property and the corresponding organization of state enterprises for the primary processing of raw materials; the active struggle to improve their positions in the world raw materials markets, and especially for the creation of mechanisms for indexing prices on raw materials—all this encouraged the strategy of future development of the extractive industry. Rising prices in raw materials production are an additional incentive for expanding their production; falling prices also encourage the additional production of raw materials as a way of compensating shrinking proceeds from exports.

It is illustrative that many international experts have positively characterized the strategy of raw materials [producing] countries and have forecast favorable prospects for raw materials prices. Thus, for example, the decline in prices in the early '80's was evaluated as temporary: it is assumed that the postcrisis industrial upswing will substantially raise them.<sup>1</sup>

Thus, throughout the '70's and in the early '80's, there were two trends operating in opposite directions: the lowering of the share of the costs of raw materials and fuel in the value of industrial products and the further increase in the production of these components. While the contradiction was obvious, the producers of raw materials could practically not act otherwise; however, hopes for the international regulation of labor did not materialize. The functioning of the market mechanism was especially harsh after the 1980-1982 crisis. As a result of the combined effect of the two trends, real prices on mineral raw materials in the middle of the current decade were at the lowest level in the entire postwar period, while the prices of energy carriers were only two times higher than the level of the early '70's. The consequences of such a turn of events have been very grave for the majority of producers of raw materials and fuel.

Side by side with these changes in production proportions and commodity exchange, the fact that one part of the Third World had a surplus of foreign currency while another, more considerable part was at the same time experiencing an acute need for foreign currency reserves became an important factor in the development of the WCE in the '70's. There also arose the very broad international problem of "recycling" petrodollars. In no small measure, it promoted the active oversaturation of international loan capital market with loanable funds and the growth of TNB's.

This situation favored the intensive influx of credit into many developing countries—into those that took out loans primarily to cover the deficit in their national budget as well as into those who tried to use borrowed funds to sustain high growth rates in the face of worsening market conditions in the WCE. The need of many countries in the "periphery" for credit also increased because of their orientation toward using this credit to replace direct foreign investments. I. S. Korolov justly emphasizes that the developing countries "frequently make unjustifiably broad use of borrowed funds in the hope of paying off their debts through the inflation mechanism."<sup>2</sup> However, contrary to expectations, the real interest rate on private credit rose to 14.1 percent in 1981<sup>3</sup> which was two times higher than the interest rate in the period preceding the 1973-1947 oil boom. And even though it declined slightly in subsequent years, the currency-financial situation of many developing countries, particularly the most developed of them, deteriorated at a progressive rate because "it was just then that the principal payments came due on loans obtained back in the '70's, after the first rise of oil prices."<sup>4</sup> The situation was worsened by the rise in the exchange rate of the American dollar starting in 1979.

And so, under the conditions of the world economic crisis of 1980-1982, the situation of the majority of the peripheral countries began deteriorating under the influence of a number of trends in the development of the world economy. It is well known that the developed



countries also suffered heavy losses in the severe recession. However the negative consequences specifically for the developing countries began to grow like an avalanche. Their demand for credit did not diminish and their debt problem intensified simultaneously with the deterioration of the terms of trade for many of them. Foreign loans stimulated economic growth and the expansion of the share of production for export in some countries. But the positive impact of credit on the economy was increasingly offset by the growing burden of indebtedness that became a serious factor in inhibiting development, that devoured the proceeds from exports and foreign currency reserves, and that required more and more resources to replace them.<sup>7</sup>

We should emphasize the very important circumstance that the principal countries with a market economy overcame the deep recession of the early '80's by modernizing the economic structure and by increasing scientific and technical inputs per worker. They are forging onward, changing their import requirements and accidentally complicating the task of expanding and modernizing the structure of exports for the rest of the world. Given their continuing heavy indebtedness, such a trend substantially restricts the opportunity that many developing countries have to obtain the foreign currency resources they require for their development from overseas.

Thus the concrete situation of interaction of developed and developing countries in the mid-seventies changed substantially as a result of significant changes in the entire system of interrelations of different elements of the WCE, within the framework of which countries, branches, commodity prices, parities of national currencies, etc., are intertwined and interact in a complex way. The dynamics of these interactions and correlations is controlled by common patterns and processes in the development of the WCE, that are by no means manifested only at the level of international relations, even though it is specifically at this level that they are frequently recorded and at the same time corrected.

#### **The TNC as a Key Agent That Organizes the System of Relations Between the Center and the Periphery of the WCE**

The crisis situation that is presently seen in the foreign credit relations of many developing countries and the widespread migration of funds from these countries in the form of payments on loans, and the dramatic reduction in new receipts from foreign banks cast a shadow over the general picture and the fundamental significance of entrepreneurial activity of transnational capital in the periphery of the WCE. At the same time, in all stages of development of the interrelations of different parts of the WCE, contacts between the developing countries and Western business capital have been expanded and modified. The peripheral countries' urgent need for new machinery, technology, and scientific-technical knowhow, as well as services relating to

the organization of management of production at the level of enterprises or different economic complexes becomes an ever more important incentive behind such collaboration. And while the unilateral mechanism for transferring developmental resources appears to have been established for a stable work routine in credit relations between these groups, in the production and service sphere the picture is entirely different.

If one speaks about the Third World as a specific zone in the WCE, it concentrates one-fourth of foreign investments of international capital. The correlation between foreign investment and the GNP in the developing countries is higher than in the developed countries and it is constantly increasing. This is primarily due to the growth of this indicator in the Asian countries where the influx of capital from overseas is particularly rapid.

TNC's are typically more and more selective in their operations in the developing world. Geographically, their attention today is concentrated on Southeast Asian countries and territories, especially on Hong Kong, Singapore, Indonesia, Malaysia, South Korea, Taiwan, and Thailand. China has also become an important object of capital investment. In 1983-1985, these eight countries accounted for 40 percent of the influx of direct foreign investment in the Third World and 92 percent of the TNC's' investments in Asia<sup>8</sup> whereas in the late '70's, the share of these countries in the overall volume of foreign investments in the periphery of the WCE was about 20 percent; foreign investment in Asia—74 percent.<sup>9</sup> These countries are so attractive to foreign investors because of their relatively high technical level, dynamic development, and skilled manpower. What is more, Indonesia, China, and Thailand have vast internal markets; Indonesia and Malaysia are rich in natural resources. It is also of no little importance that these countries offer special privileges to foreign entrepreneurs.

A larger role is also played by such a factor as the formation of a new, unique sector of the capitalist economy—a sector with a higher level of business activity—in the Asian-Pacific region. The concern of business and government circles of West European countries, including the leadership of the European Community, is illustrative in this regard. Thus, for example, the authors of a report submitted to the French parliament in December 1986, while noting that the Pacific economic region is becoming a "new center of market, industrial, and especially technological civilization," raised the question of the necessity of strengthening Western Europe's positions in ASEAN countries, in South Korea, Hong Kong, and Taiwan; complained that "Europe has remained in traditionally acquired positions"; and maintained that "European countries will be unable to become a part of the development of these countries and to extract benefit from this accordingly, without expanding capitalist investments there."<sup>10</sup>

It should be noted that in the late '70's and early '80's, there was expanded participation of TNC's in the extraction and refining of oil and other types of fossil raw

materials. Difficulties suffered by the developing countries in the organization and management of the nationalized raw materials sector made themselves known. For example, the share of the oil industry (including oil refining) in overall U.S. capital investment in the Third World rose from 4.8 percent in 1977 to 36.5 percent in 1984. In subsequent years, to be sure, investments in this branch did not expand and their share in 1986 dropped to 29.4 percent.<sup>11</sup> The depressed state of the raw materials sector of the world economy made itself known.

The dramatic increase in the volume and share of investments in the service sphere (the banking sector, insurance) and trade is the most substantive change in the distribution of TNC's investments in the Third World. For example, the share of these spheres in American Third World investments increased from 24 to 37 percent (from \$12 billion to \$23 billion) between 1984 and 1986, including Latin America—from 18 to 42 percent (from \$4 billion to \$15 billion).<sup>12</sup>

Such changes reflect, in particular, the striving of transnational capital to strengthen the financial infrastructure in a number of regions of its entrepreneurial activity. Characteristically, given the slackening of the influx of new commercial loans to the Third World, there has been considerable development of such additional channels of financing for TNC's as regional capital markets and international financial centers in the developing countries (in the Caribbean, the Bahamas, Bermuda, Singapore, etc.).<sup>13</sup>

Substantial changes are also taking place in the entrepreneurial activity of TNC's in the manufacturing industry of the various developing countries; this also concerns the choice of branch directions and forms of production organization. So-called new forms of international investment that characterize the adaptation of TNC's to the conditions and demands of various countries underwent further development in the '80's. They constitute numerous contracts that are not directly associated with investment activity: the sale of licenses and the offer of technology and technical services; the construction of turnkey enterprises (this type of contract is seen as one of the variants of training local personnel); the management of the enterprise; the performance of surveying work; the creation of extractive enterprises and the performance of geological prospecting work on a "product sharing" basis; the right to use the trademark of a TNC; and finally "international subcontracts" on the delivery of parts or finished products from a developing country. These "non-joint-stock" forms of contracts also include "jointly owned enterprises" that are created with the participation of foreign capital specifically on the basis of an agreement with the government of a given country, which gives the latter a real opportunity to monitor the activity of a TNC participating in an enterprise.

The spread of contract relations creates such forms of international production cooperation within the framework of which the developing countries have the possibility of using the latest technology of the leading capitalist countries and of using sophisticated systems for controlling production processes. This requires the creation of technological systems in the developing countries themselves that make it possible to expand their activity on the basis of product standardization.<sup>14</sup>

Naturally, as yet this is the lot of only a few Third World countries. But if until recently American and Japanese TNC's have incorporated in their chains for the production, let us say, of electronic products only countries and territories with a relatively high industrial potential (Brazil, Mexico, South Korea, Singapore, Hong Kong, Taiwan), this circle now already includes Malaysia, Thailand, the Philippines, and a number of Latin American countries (El Salvador, Chile, Barbados, etc.). Not only the production of semifabricated goods and components, but certain technological processes as well are being transferred to them.

TNC's with the most advanced technology do not transfer it when "jointly owned enterprises" are created in the developing countries, they prefer to locate their affiliates there. The agreement on affiliates becomes a point of departure for expanding science and engineering contacts, for creating joint enterprises, and for selling licenses and knowhow. In many cases, however, the problem consists specifically in the inability of peripheral countries to adopt and use new technology.

Japan makes it a common practice to place orders for subcontractor-performed work on the production of electronic consumer goods—both parts and the finished product. The number of such contracts has increased in the last 3 years simultaneously with the expansion of the network of affiliates of Japanese TNC's in many Southeast Asian countries. The striving of Japan to expand its export potential under the conditions of the rising exchange rate of the yen was one of the motivations. Japanese firms subcontract out work on the production of cassette recorders and other quite sophisticated products that is then sold under the trademark of the corresponding head firm.

Large retail trade companies also use the subcontract. In such cases, work under subcontracts consists in the production of certain goods in strict accordance with the specification of the buyer who sometimes supplies the subcontractor with raw materials or even equipment and in such a case puts his trademark on the product.

The adaptation of transnational capital to the conditions of the developing countries is facilitated by the creation of "export-oriented industrial zones" in these countries. These specific sectors of the WCE with a special preferential regime create advantages for foreign firms and for the country in which they are based since it is easier to organize infrastructural equipment in zones, to increase



the effectiveness of management and coordination, to satisfy the requirement for foreign currency, and to attenuate the consequences of inflation.

In 1986 there were more than 260 such zones of interaction between the center and periphery of the WCE in 53 countries (compared with 53 zones in 25 countries in 1980). The number of workers employed in them reached 1.3 million persons compared with 500,000 in 1975. In the last 10 years, exports from these zones increased by 15 percent, i.e., significantly exceeded the analogous indicator for developing countries as a whole.<sup>15</sup>

It is important to note two circumstances in this regard. First, the zones help to overcome the fear of risk in international activity and thereby attract not only large TNC's but small and medium-size companies as well. Second, the zones try to launch business and national firms that either participate in joint enterprises or that either participate in joint enterprises or that work under subcontract from foreign companies that have a broad sales network in the markets of the developed countries. It is specifically in these zones that the local companies often demonstrate their ability to compete in the world market. They occasionally also use zones for the development of activity in their own countries.

The TNC's of the developing countries are becoming a more and more important link in the chain of relations of different parts of the WCE. Their direct investments in foreign countries reached \$19.2 billion by 1985, i. e., approximately 3 percent of the world volume of transnational capital investments. (Seventeen of these TNC's (including 6 South Korean, 2 Brazilian, and 2 Mexican) have a sales volume of more than \$1 billion each. Approximately 50 percent of the foreign activity of the TNC's of the developing countries is concentrated in the sphere of oil refining. Such specialization developed as a result of the nationalization of oil extraction and the subsequent vertical chain—refining and marketing. Thus the Venezuelan "Petroven" extended its activity to foreign countries after taking possession of half the capital of one West German and two American oil companies. Brazil's "Petrobras" has affiliates in eight developing countries where it chiefly renders expert services.<sup>16</sup>

The foreign activity of the companies of the developing countries frequently originates on the basis of their work under subcontract or their participation in joint export-oriented enterprises, i. e., the export of capital follows or takes the place of the export of goods. Bringing production to the customer is particularly attractive in connection with the growth of protectionism in world trade. Many firms in the most highly developed Third World countries operate in the manufacturing industry of other developing countries in an effort to surmount trade barriers and use cheaper labor power.

Thus the advent of new forms of economic interrelations of developed and developing countries promotes the constant expansion of the network of activity of transnational capital that combines direct investments, various combinations of participation on a share basis, and non-joint-stock forms—contractor-performed work, production, scientific-technical, and management services. Such a network creates for the developing countries the possibility of making more effective use of national economic resources and for drawing closer to the frontiers of the modern economy and scientific-technical progress. Nevertheless, today the Third World is extremely unevenly covered by such a network. This is reflected to an ever greater degree in the process of its differentiation. The degree of integration in this system substantially determines the prospect for the development of individual countries.<sup>7</sup>

A number of countries in which the mechanism of acceleration of industrialization based on the utilization of the advantages of the international division of labor and new attainments of scientific-technical progress are increasingly becoming part of the network of transnational capital and this makes it possible for them to draw closer to the principal countries of the WCE with respect to important economic indicators. They are a unique link in the chain of world economic interrelations situated between the central and peripheral zones but frequently act within these zones as well. The "new wave" of participation in the international division of labor is gradually forming: some countries, owing to this network and, as a rule with the participation of technically progressive Third World countries, try to create in their countries a model of socioeconomic development that would make it possible for them to use the advantages of the international division of labor more widely, and to become a more effective part of the WCE system.

In all probability, most peripheral countries cannot as yet embark on the path of dynamic industrialization and perceive especially keenly the Third World's characteristic disunity of contemporary and traditional forms of the economy, the lack of development of the economic and social infrastructure, and the inability to be properly receptive to scientific-technological progress. The structure or the network that is created by the activity of the TNC makes it possible for such countries to incorporate individual sectors of their economy into the production system of the WCE.

At the same time, the prospect for development evidently can for a significant number of countries be connected only with fundamental changes in the approach of the world community to the global problem of backwardness. A new factor in the development of the WCE is forming. It remotely resembles such a reality of the principal capitalist states as the constant improvement of part of society at the expense of national social funds. The uniqueness of this factor also consists in the fact that the most backward part of the WCE exerts pressure on the countries belonging to its center not

through economic competitive power but by the very fact of their backwardness and diminishing viability with all the possible consequences.

However, it appears obvious that the promotion of the development of the most backward countries by way of resolving the global problem of poverty can be actually realized on the basis of the combination of the aid of developed countries with the efforts of the TNC's, i. e., largely on the basis of some forms of subsidizing of the latter from the budget funds of the world community. After all, the extension of aid to the most backward countries exclusively in the form of direct transfer of financial resources or food is capable of aggravating the situation and of driving their disease inward.

When we say that the interweaving of various forms of activity of transnational capital expands the soil for the mutually advantageous economic relations of different countries, we should evidently should in particular emphasize the fact that the most important channel for incorporating the developing countries in the system of WCE interrelations is nevertheless created by direct TNC investments. It is specifically they that form the production and scientific-technical base of interaction of developed and developing countries by cementing its entire structure. It is specifically the TNC's ownership of part of the means of production that frequently occasions the feasibility and increases the effectiveness of many other forms of economic contacts. In many instances, it generates initial impulses of development of multilateral cooperation.

The dynamics of the direct investments of TNC's can be viewed as an important indicator of the interaction between developed and developing countries. Its significance grows against the background of the present debt situation. The above-cited survey by the UN Center for TNC's shows that the share of direct foreign investments in the general flow of investments in the overall flow of long-term capital to the Third World increased from 14.3 percent in 1975-1979 to 17.2 percent in 1980-1985.<sup>17</sup>

Representatives of Western business and experts unanimously note the trend toward the increased influx of direct foreign investments in the developing countries. Thus, for example, G. Pollio, vice-president of the American Chemical Bank, and C. H. Riemunschneider, chairman of a U. S. Senate Committee, in the article "Beginning of the Investment Revival in the Third World" note that while direct foreign investment comprised 50 percent of the influx of capital into the Third World in 1970, but only 20 percent in 1983, in 1986 it was once again close to 50 percent. In absolute terms, it reached \$12.5 billion in 1986, whereas in 1983-1985 its volume averaged \$10 billion.<sup>18</sup> According to the assessment made by the IBRD in the "Report on World Development" (June 1987), in 1995 this indicator might grow to \$17 billion.

At the same time, the trend is to convert the foreign indebtedness of the developing countries into investments (stocks) of local enterprises. Such operations are widely practiced in Brazil, Mexico, Chile, as well as the Philippines and other countries. In Brazil in 1988, \$6.5 billion dollars' worth of Brazilian indebtedness obligations were converted into direct investments. In Mexico in the middle of 1988, state property valued at \$3.3 billion, which is half of the total foreign investment in that country in the 80's, was "swapped" to foreign investors.<sup>19</sup>

Such a trend is entirely understandable. After all, in the system of relations of the central and peripheral parts of the WCE, considerable difficulties of a large number of developing countries that are connected with the cancellation of their foreign indebtedness are a brake on the development of this entire system. The existing situation worsens the conditions of activity of transnational capital as a whole, restricts the export markets of creditor nations, and narrows certain channels of production and scientific-technical cooperation between different parts of the WCE, and prompts many countries to intensify protectionism. At the same time, it negatively affects the position of a considerable number of large banks and ultimately the credit system of the leading countries in the West. Therefore the principal creditor nations undertake measures to attenuate the present debt situation (the partial writeoff of debts, postponement of their due dates, improvement of terms of credit, conversion of foreign indebtedness).

Crisis phenomena in the interrelationships of central and peripheral parts of the WCE are responsible for the substantial contradictoriness of its development in the extended future and operate as an inhibiting factor even now. While this contradictoriness can be modified or even intensified in certain stages, the formation of trends toward overcoming it is obvious. One of the patterns in the development of the WCE is the assimilation of the developing countries as a market for the sale of commodities, technology, technical knowhow, and the use of these countries or individual sectors of their economy for expanding the network of international cooperation in production. Such assimilation presupposes different forms of participation of the TNC's in the creation of production potential and infrastructure. The borrowing of foreign financial and scientific-technical resources is a necessity for the absolute majority of developing countries and this in turn makes it possible for TNC's and TNB's to participate directly in their economy.

#### Footnotes

1. For detail, see the roundtable "Modern Capitalism and the Developing World: Character and Prospects of Interrelations" (NARODY AZII I AFRIKI, No 5, 1988, pp 123-141; No 6, 1988, pp 68-89).

2. For detail, see: I. Yegorov and A. Solonitskiy, "Economic Basis of the Neocolonial System" (MEMO, No 5, 1986, pp 102-106).

3. See HARVARD BUSINESS REVIEW, March-April 1988, p 116.

4. I. S. Korolev, "Valyutnyye otnosheniya kapitalizma: ekonomika i politika" [Capitalist Currency Relations: Economics and Politics], Moscow, 1986, p 117.

5. "World Debt Tables. External Debt of Developing Countries," Volume 1, Washington, 1988, p 3.

6. I. S. Korolev, Op. cit., p 118.

7. Thus, for example, the ratio of debt payments to export revenues reached its peak of 43 percent in 1982 and then declined in 1986 but only to 33 percent. At the same time, the ratio of interest payments to export revenues was 25 and 24 percent in these years. The corresponding indicators for Mexico were 34 and 37 percent for debt payments and 22 and 26 percent for interest payments; Argentina—24 and 50 percent and 13 and 35 percent ("World Debt Tables....," Volume 2, 1988, pp 9, 41, 257).

8. Calculated on the basis of: "Transnational Corporations in World Development. Trends and Prospects," U. N., New York, 1988, pp 76, 82.

9. Calculated on the basis of: "Transnational Corporations in World Development. Third Survey," U. N., New York, 1983, pp 30, 298-310.

10. "Journal Officiel de la Republique Francaise. Avis et Rapport du Conseil Economique et Social," Paris, 9 December 1986, pp 3, 7, 61.

11. SURVEY OF CURRENT BUSINESS, August 1985, p 34; August 1987, p 58.

12. Ibid.

13. For more detail, see articles by V. Karpunin (PROBLEMY DALNEGO VOSTOKA, No 2, 1988, pp 164-166 and NARODY AZII I AFRIKI, No 2, 1987, pp 59-67).

14. See N. V. Volkov, "Developing Countries and the Structural Restructuring of the U. S. Economy" (SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA, No 2, 1988, pp 33-40).

15. "Transnational Corporations in World Development. Trends and Prospects," p 170; "Transnational Corporations in World Development. Third Survey," pp 155-156.

16. "Transnational Corporations in World Development. Trends and Prospects," pp 23, 38.

17. Ibid., p. 139.

18. HARVARD BUSINESS REVIEW, March-April 1988, p 114.

19. EUROMONEY, Special Supplement, September 1987, p 2.

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## Quarterly Survey: 'Political Prognoses'

### Editorial Introduction

1816000w Moscow MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA in Russian No 4, Apr 89 p 31

[Article: "Political Forecasts"]

[Text] To the Reader of the International Survey:

Perestroika in the mass media and significant improvement in the reporting of current events in international life by the daily and weekly press and by television have prompted the journal's editors to make certain changes in the principles governing the preparation of the quarterly survey "Current Problems in World Politics." The basic direction of these changes is: the formulation of the issues in greater depth, the higher degree of conceptualization, and the establishment of the journal's basic profile as more of a scientific publication rather than as a source of current events and commentary.

Compared with the form that has been practiced up until now, the Survey will henceforth differ (1) by its orientation toward the analysis of medium- and long-term processes in international life and major phenomena in world politics; (2) by its more analytical orientation; (3) by the semantic interconnectedness of materials united under a common heading in any given issue; (4) by the compressed, economical mode of presentation, frequently in the form of theses.

The editors proceed from the premise that just such a form of the Survey in the present stage corresponds to the interests of the readers and of those propagandists who are trying to raise the analytical level of their statements. It also corresponds more than before to the tasks of our journal. We will be grateful for responses, opinions, and proposals concerning materials published in the Survey.

### U.S.-Soviet Relations Under Bush

18160009c Moscow MIROVAYA EKONOMIKA I  
MEZHDUNARODNYYE OTNOSHENIYA in Russian  
No 4, Apr 89 pp 31-38

[Article: "Prospects for the Development of Soviet-American Relations Under the Bush Administration"  
(Material prepared by the North American Research Department of IMEMO, USSR Academy of Sciences)]

[Text] The correlation between elements of the approach toward the Soviet Union that formed in the USA in the second half of the '80's and innovations by the Bush administration will be determined in the initial stage by the specifics of the political and economic context in which the President commences his activity.

#### 1. The economic situation

1.1 R. Reagan's economic legacy has proved to be very complex from a political standpoint and contradictory from an economic point of view. On the one hand, Reagan's reforms led:

- to a sharp reduction in inflation (from 10-12 percent in the late '70's to 3-4 percent at the present time);
- to a record period of stable economic growth;
- to lower unemployment (from almost 10 percent in 1982 to 5.5 percent in 1988);
- to the restructuring of the economic structure which has now begun, to the renewed growth of spending by business on R&D, to increased efficiency compared with the preceding level
- to a higher standard of living as a result of the involvement of second and third family members in labor activity (for the most part, on the basis of part-time employment) and a certain lowering and equalization of taxes.

These basic positive results of Reaganomics are highly esteemed by the population and are the basis for the widespread recognition of R. Reagan in the USA as a president who brought real economic gains to the average American and who kept his promises. The U.S. population naturally hopes to preserve these results, as reflected in G. Bush's election victory.

1.2. On the other hand, there have been clearly pronounced negative processes in the U.S. economy in '80's:

- While carrying out an enormous program of military organizational development, attempting to maintain budget expenditures affecting the interests of the middle strata, and implementing tax reform, the administration encountered an acute deficit of financial resources. Reagan addressed this problem by resorting to unprecedented deficit financing of budget

expenditures and increasing the national debt. Today, it is almost \$2.6 trillion (in 1980—a little over \$900 billion); payments on it amounted to more than \$150 billion a year and have become the third largest item of expenditure in the state budget (14 percent of expenditures). Since 1986, the budget deficit has been the subject of particularly sharp disagreement between the Republican administration and the congress, in both houses of which the Democrats have increased their majority, and after the stock market crisis in October 1987—between the USA and other Western countries. This is one of the main questions for the Bush administration's economic policy.

- Record deficits in the balance of trade and balance of payments plus the deterioration of U.S. international investment positions have contributed to the rapid transformation of the USA into a debtor that is presently burdened with a foreign debt of \$0.5 trillion. The dramatic increase in imports in the second half of the '80's was indication of the inability of American goods to compete with Japanese and West German goods, with the goods of the "new industrial nations." The U.S. share in world exports of goods and services dropped to the lowest level in the postwar period. A certain disdain dating back to the '70's for research and development, for the modernization of capacities, and for raising labor productivity made themselves known under Reagan and continue to do so today. Not until the third year of the decline in the dollar's exchange rate did exports begin to grow at a faster rate and the deficit trade balance begin to diminish. On the whole, the position of the USA in the world economy weakened under Reagan.

1.3. Taking the complexities of the economic legacy left to G. Bush, it should be expected that the new administration will initially continue to use Reagan's economic tools in the search for any possible growth of revenues and economies. Economic considerations can also be expected to have a certain impact on the administration's arms limitation policy.

1.4. In the last year the interest of Western countries in economic relations in the USSR has mounted rapidly. Nor can American business ignore this process. However, the road to radical change in Soviet-American economic relations is still blocked by political restrictions (controlled commodities lists, the Jackson-Vanik Amendment, the American veto of the USSR's entry into GATT, etc.) as well as negative stereotypes of the USSR as an economic partner. Both political restrictions and stereotypes can be overcome only in the context of actual results of political and economic perestroika in the USSR.

#### 2. The internal political context

2.1. The new President undertakes the resolution of complex internal problems "with his hands tied." The "Reagan revolution" greatly limited the powers of the



federal government. It dramatically reduced the effectiveness of the three basic levers that federal government bodies have at their disposal: the budget, the tax system, and the centralized apparatus for regulating economic and social processes.

2.2. At the present time, more than 85 percent of all federal spending is for three basic items: direct payments for various social programs, defense, and interest on the national debt. The payment of interest on the national debt is the "incompressible" part of the budget. It confronts the government with the difficult choice between curbing social or military expenditures. The new administration will hardly be able to implement a purposeful economic and social policy on the basis of the substantial deduction or redistribution of budget allocations.

Taxes—another key lever that the federal government has at its disposal—have also lost their former effectiveness. The tax system that has been transformed by the Reagan administration not only does not ensure the state treasury's receipt of the necessary revenues, but has also proven to be inflexible as an instrument of economic and social policy. Bound by numerous preelection promises, G. Bush can hardly begin his presidency with a direct tax hike.

The paradox is that the decline of the role of the federal government during the Reagan administration was combined (during the second half of his presidency) with a gradual increase in the demands made on it. Unlike the '70's, public opinion polls revealed that Americans clearly desired increased government intervention in various areas. As a result, the new administration is pressed between the heightened expectations of the public and the diminished potential for activity. In order to eliminate this bottleneck, it would have to have an unconditional mandate, i.e., a landslide at the polls.

2.3. At first glance, G. Bush's victory appears quite convincing. In reality, however, it cannot be considered a triumph. The difference in the number of votes gathered by the two presidential candidates was significantly smaller than the average since 1968 when the series of Republican presidential election victories began. The Republican candidate did not succeed entirely in mobilizing the Reagan coalition that formed in the '80's. Compared with the preceding presidential elections, the Republicans had approximately 6.5 million fewer voters while the Democrats acquired 3.5 million new supporters.

In addition to the dynamics of the electorate, the reasons people voted are also of great importance. G. Bush's victory was essentially R. Reagan's third victory in a row. People voted for continuity and stability. The new President does not have a clearly formulated program of his own. He will bear the heavy burden of responsibility for unpopular decisions to which he is to all appearances doomed by the preceding policy of Reagan. Bush's

position is aggravated by the fact that he has replaced a very lucky and popular president and his activity will be evaluated on the basis of a considerably higher set of demands.

Nor does the new President's election base give him much of a "free hand." The 1988 elections reinforced the long-term trend toward consolidating right-centrist forces under the aegis of the Republicans. The political ideology of G. Bush's electorate reduces the new administration's potential for maneuvering.

2.4. The congressional elections do not promise the new President an easy life in his relations with the highest legislative body. Unlike 1980, when R. Reagan's entry into the White House was accompanied by major election victories in the House of Representatives and (especially) the Senate, G. Bush's election is offset by the strengthening of the position of the Democrats in Congress.

2.5. In its search for a way out of the complex economic and social situation, the Bush administration may in time also try to mobilize foreign policy reserves in an effort to lighten the burden of its imperial obligations.

A certain restriction of military spending will obviously be one of the elements of the policy of the new administration in the White House. But G. Bush must do this in such a way that it will not look like the unilateral weakening of American power in the eyes of the broad public.

### 3. The evolution of mental stereotypes concerning relations with the USSR and security problems

3.1. There are several groups in American society that differ in their attitude toward the USSR and Soviet-American relations. Most of them comprise a group that can be called the "non-ideological center." The moods of this group substantially influence the administration and Congress and policy in Soviet-American relations. The attitude of the "non-ideological center" toward the Soviet Union is in turn significantly formed by the internal situation in the USSR and Soviet foreign policy actions.

3.2. In the first half of the '80's, the "non-ideological center," together with extreme right-wing groupings, supported the buildup of military power and actions to strengthen the USA's positions in order to "counter the growing threat posed by the Soviet Union." The increase in the military potential of the USSR, the introduction of Soviet troops into Afghanistan, the persecution of dissidents, the restriction of emigration, etc., reinforced in the American mass consciousness the view of the USSR as a totalitarian state that threatens vitally important U.S. interests. The negative attitude toward the USSR also intensified because the optimistic expectations born of detente in the early '70's were not realized.



American attitudes toward Soviet-American relations began to change under the influence of Soviet foreign policy initiatives, the policy of democratization and glasnost, and creation of a law-governed state.

3.3. The positive evaluation of M. S. Gorbachev's activity has grown steadily. In June 1986, 51 percent of those interviewed declared that they had formed a "favorable impression" of him; in October 1987—two-thirds; and in July 1988—83 percent. M. S. Gorbachev's steadily rising prestige has had a substantial impact on the change in views of Soviet-American relations.

3.4. The fear of nuclear war has diminished dramatically. In 1988, only 8 percent of the Americans feared the possibility of a nuclear war or other armed conflict with the USSR (compared with 68 percent in the late '70's and early '80's). The number favoring better relations with the USSR has increased. In 1988, 64 percent of the Americans polled believed that the USA should make additional efforts to reduce friction with the USSR. Eighty-four percent declared themselves opposed to the further buildup of military might; 71 percent favored the conclusion of a treaty with the USSR for the destruction of most nuclear weapons by the year 2000. Seventy percent stated that any mutual reduction of nuclear made the world safer and strengthened U.S. national security; 49 percent believed that the conclusion of the INF Treaty was more in keeping with U.S. national interests than any other foreign policy action by the American government in recent years. At the same time, 68 percent continued to believe that "we cannot believe what the Soviet leaders say and we must therefore move slowly and cautiously in replying to Gorbachev's actions."

As regards specific spheres of collaboration, 54 percent of all Americans declared themselves in favor of removing barriers to Soviet-American trade; collaboration in the fight against environmental pollution—85 percent; cooperation in the fight against illegal drug traffic—85 percent; interaction in the fight against terrorism—78; development of cultural exchanges—84 percent; cooperation in resolving regional conflicts—72 percent.

The polls suggest an appreciable change in American sentiments in favor of better Soviet-American relations. However this does not mean that most Americans have overcome their deep-seated mistrust of the USSR, their suspicion of our goals and possible actions in the international arena. Therefore most Americans favor positive development of Soviet-American relations but are also for extreme gradualness and caution in this process.

#### 4. The Soviet factor in U.S. foreign policy

4.1. In the opinion of both sides, the USSR and USA have made appreciable progress in the normalization of their interrelations. American views are typified by the conviction that this has largely been the result of the firm

position taken by the United States in the early '80's and by the growth of American might (even though there is also another point of view that is as yet shared by few). At the same time, people in the USA are well aware that it is specifically the changes in our country that have played the decisive role in the organization of constructive interaction between these two "superpowers."

4.2. The U.S. ruling elite can be divided into three groups depending on their attitude toward perestroika. One group consists of active critics of the position that perestroika is the basis for organizing cooperation with the Soviet Union. They do not believe in the fundamental possibility of reforms of Soviet society that would transform the USSR from an enemy of the United States into a reliable partner; they believe that as a result of the economic reforms, the USSR will be able to develop its military potential more effectively. Another group views perestroika as a unique possibility for the decisive turn of West and East from the Cold War and therefore urge assistance to perestroika. However, these polar positions have only an indirect influence on the formulation of actual U.S. policy toward the USSR.

4.3. At the present time, the third group, which unites both traditional conservatives and liberals, is the largest. Their most characteristic feature is that they are still taking a wait-and-see position. Their views of perestroika are presently dominated by cautiousness that occasionally assumes irrational proportions. This is not surprising if we consider how unprecedented the situation in the USSR is from the Americans' point of view. The views of this group boil down to the following:

- The reforms that are being carried out by the USSR contain a potentially large positive charge from the standpoint of American interests. Nevertheless, memories of the so-called "detente syndrome" (a reference to the illusions and excessively high expectations associated with detente in the '70's) have a very negative impact on the overall assessment of perestroika.

- The USSR has to date made notable progress in the development of glasnost, but has not by any means succeeded in its economic reforms. The irreversibility of perestroika is still not guaranteed.

- The doctrine of the new political thinking has not yet been convincingly confirmed in tangible terms. The USSR's actions in the international arena are viewed as steps that are in the right direction but that have not as yet produced a qualitative breakthrough.

- The consequences that radical change in all spheres of social life in the Soviet Union, especially in its economy, hold for the USA have not yet been determined. There are fears that the result of perestroika may be that the United States will have a rival with great possibilities for the development of its military potential.

- The Soviet Union must carry out certain measures to prove the depth and genuineness of perestroika. Various systems are proposed for "testing" perestroika, chiefly in the areas of foreign policy and human rights.
- The USA should not directly aid perestroika: there is no specific occasion for offering it; the way in which it should be expressed is also unclear.
- For the first time in many years, the Soviet leadership has seized the initiative in the eyes of world and American public opinion.
- The time has come to embody the existing level of understanding of processes occurring in the USSR in political actions. At the same time, the results of perestroika have not yet acquired the scale that would compel the immediate, fundamental reexamination of U.S. foreign political philosophy and military political strategy.

It would be simplistic to believe that U.S. policy, which reflects the views specifically of the third group, oscillates between the adoption and rejection of the fact of Soviet perestroika. It is easy to see that such policy reflects the contradictoriness of life itself. Its decisive feature is not bewilderment over the events in the USSR but is rather cautious pragmatism.

4.4. If the foreign and internal political situation in which the change of administrations took place does not undergo fundamental change, then to all appearances the Bush "team" will not feel the pressing need to develop and implement basic innovations in the approaches to Soviet-American relations. The following will probably be relatively new elements in the measures of the new leadership in the White House in the area of Soviet-American relations:

- the formulation of a more precise, consistent strategy vis-a-vis the USSR since in the final stage of the Reagan administration, this strategy was for the most part in the nature of a reaction to certain Soviet steps;
- the intensification of the aggressiveness, that was lost in recent years, so as to keep the partner in a constant state of tension;
- the shifting (in connection with the inevitable limitation of military spending, with the projected regulation of regional conflicts) of the emphasis from military force to propagandistic pressure, but without rhetorical excesses;
- the incorporation in policy of better knowledge and understanding of perestroika and the nuances and peripeteia of the struggle surrounding it in the USSR;
- attempts to find and exploit discrepancies between the Soviet Union's declarations and its actual foreign policy.

4.5. On the whole, if we judge by today's signs, it is unlikely that the Bush administration will display any particular boldness in furthering Soviet-American relations at the beginning of its term in office. The situation compels it to maneuver it may declare the adoption of new, sweeping approaches. The administration will obviously proceed initially from the premise that under conditions where the state of Soviet-American relations is entirely satisfactory, time works for it.

The administration's most perceptible impetus to develop dialogue will most likely appear in the second stage of its incumbency when it (a) will be interested in demonstrating the effectiveness of its foreign policy on the eve of the elections; and (b) it may feel the need to compensate for failure in solving economic problems with successes in the foreign policy area.

4.6. The reserves that exist in the Soviet-American dialogue on disarmament open up the possibility for relatively rapid progress in a number of directions. At the same time, the administration, fearing right wing, conservative criticism, is not inclined to create the impression that it is hastening to conclude agreements with Soviets. The study of the state of affairs in arms control, with which any administration traditionally begins its term of office, can easily drag on for a year, which will also make it possible for the White House to procrastinate in making fundamental decisions on questions pertaining to arms limitation.

4.7. It would be in keeping with the spirit of the administration's general approach to Soviet-American relations to send the "threshold" treaties of 1974 and 1976 on restricting underground tests of nuclear weapons and underground nuclear explosions to the senate for ratification. The Bush administration can do this to demonstrate its interest in arms control and also because the reliability of systems for verifying the observance of these treaties was demonstrated by joint Soviet-American experiments.

4.8. Notwithstanding agreement on a considerable part of the text of the treaty on strategic offensive weapons under the Reagan administration, the new leadership in the White House is as yet restrained in its assessment of the prospects for completing work on the treaty. First, its usefulness in its present form is questioned in certain influential circles. Second, the struggle concerning avenues of modernization of strategic offensive forces became a fundamental problem (that still exists) preventing the Reagan administration from speeding up the work on the treaty. In the USA, there is no consensus on the optimal combination of strategic arms systems. If the administration were to develop a definite strategic modernization model sooner, it seems unlikely that this model would be adopted (with or without corrections) without careful, relatively prolonged analysis. The haggling between departments as well as between the White House and Congress will be a serious brake on strategic arms limitation talks.

Many American experts believe that the possibility of a compromise on the ABM Treaty is a factor that inspires optimism concerning the treaty on strategic offensive weapons. These specialists believe that the lack of genuine enthusiasm in the White House and Congress for the SDI and the dramatic downscaling of the program's objectives suggest a real foundation for hopes of a compromise.

A special situation has developed around the problem of sea-launched cruise missiles (formally—due to technical difficulties connected with their control and limitation). Plans for deploying this class of missiles have been approved long ago and many of the missiles are already in service. U.S. interest in this system rose after the adoption of a new naval strategy in the '80's that assigned a central position to them; there is also the conviction that these missiles will assume the functions of land-based medium-range missiles which are being eliminated. A number of circumstances point to the possibility that the Bush administration will reach a political decision on the feasibility of limiting cruise missiles:

- influential forces with which the administration will have to negotiate (for example Senator S. Nunn, a Democrat and chairman of the Armed Services Committee) believe that the limitation of these missiles is in the long-range interests of the United States since it is vulnerable to a similar enemy weapon;
- the restriction of military spending is hampering the further growth of the American navy and provides additional arguments to those critics who do not believe that the USA will have the fleet that is necessary for the realization of its naval strategy;
- by no means do all U.S. NATO allies support the idea that sea-launched cruise missiles should compensate for the reduction of medium-range missiles. Soviet initiatives in the area of conventional weapons and progress in the corresponding talks will possibly, from the point of view of the U.S. leadership, slightly reduce the requirement for these missiles and will also buttress the allies' arguments against them.

Without an unequivocal decision on sea-launched cruise missiles, the search for technical methods for verifying their limitation will be fruitless.

4.9. The onset of the nuclear disarmament process, which resulted in the elimination of medium-range missiles, has riveted the attention of the USA and its allies on the balance of military power between NATO and the Warsaw Treaty Organization with respect to the non-nuclear component of military power. In the course of the discussion of the consequences of the Soviet-American INF Treaty, there has crystallized the extreme point of view that any next step in the limitation of nuclear arsenals (including a treaty on strategic offensive weapons) must be preceded by the elimination of the collective superiority of the Warsaw Treaty Organization

in conventional forces. The emergence of such a point of view can in large measure be explained by the desire to slow down the development of events in strategic arms talks since it is patently obvious that agreement will not be soon forthcoming on conventional forces. Even though this opinion receives positive endorsement in certain circles close to the Bush administration, it is unlikely that the new American leadership will make the treaty on strategic offensive weapons directly dependent on success in the limitation of conventional arms. At the same time, it is obvious that the successful course of these talks has had a most beneficial influence on relations between the USSR and USA and on East-West relations in general.

The USSR's initiative on the unilateral reduction of armed forces, including those in Europe, played a positive part in strengthening the confidence in Moscow's new direction of foreign policy and created a favorable atmosphere for talks that have begun between NATO and the Warsaw Treaty Organization on conventional weapons. However, as analysis of statements by Western politicians and experts shows, the Soviet initiative has still not finally eliminated all questions as to what the USSR intends to do to eliminate the imbalance between the armed forces of both alliances. In this connection, it is extremely important to emphasize that the Americans did not fail to notice that the course of perestroika revealed the danger that fundamental ideas might be emasculated in the course of their practical implementation (as was the case to a considerable degree with the laws on the state enterprise and on cooperatives).

While the Reagan administration for a long time avoided spelling out its attitude toward the limitation of conventional weapons in Europe (partly in an attempt to restrain the "disarmament" mood of its allies), the present leadership in the White House may be its active advocate. The point of departure for the Bush administration will obviously be the conclusion that it must strive for an agreement on conventional weapons that will:

- eliminate the quantitative superiority of the Warsaw Pact Organization in a number of categories of weapons;
- substantially reduce the military presence of the USSR in Eastern Europe while bringing about a minimum reduction of NATO countries' troop strength;
- make it possible for the USA to eliminate tension in the alliance over the question of the distribution of the burden of military spending;
- give Washington an opportunity to save a certain amount of resources in order to reduce the budget deficit.



In principle, it usually takes more time to reach agreement in any multilateral negotiation than in bilateral negotiations. In the given instance, the complex character will also impart a whole slate of circumstances to the negotiations. Thus, notwithstanding the experience of the unsuccessful talks in Vienna, it will evidently not be possible to cover in a relatively short time (or skip entirely) the stage of coordination of data on the makeup of the two sides' armed forces. What is more, the NATO concept of reduction of conventional weapons will be born in bitter intrablock discussions on the future of the alliance.

To all appearances, in the next 4 years the Bush administration will not be disposed to discuss major NATO troop reductions. It would seem that the United States' adoption of an unequivocal obligation to do so within the framework of talks on conventional forces and weapons would indicate the beginning of cardinal changes in U.S.-Soviet relations. The point is that the fulfillment of such an obligation would more likely entail the restructuring [perekroyka] of NATO. The USA will consent to this agreement only if perestroika in the USSR is perceived by the bloc's participants as a mechanism guaranteeing the irreversibility of the transformation of Soviet military political strategy as well as the stability of the general political situation.

4.10. The first year of the Bush administration symbolically coincides with the 40th anniversary of the North Atlantic alliance. Western critics of NATO's present structure believe that the start of the new administration gives allies the opportunity to really come to grips with problems of reforming that organization that have been postponed up to now. Representatives of the White House have repeatedly stated that the utmost importance is attached to rectifying relations with West European allies.

Under the Bush administration, Washington will encounter a situation of increasing dynamic complexity in NATO. The following points should be mentioned here:

- the Soviet Union's implementation of perestroika is eroding the view of it as the absolute "enemy" and reduces NATO members' fears of a military threat from the USSR;
- the normalization of Soviet-American relations strengthens security on the European continent and gives West European allies more room to maneuver in their relations with the USA on wide-ranging problems;
- fundamental reforms in the Soviet Union are perceived in Western Europe with somewhat less prejudice than on the other side of Atlantic and the possibilities connected with them are studied more actively;

—the international situation unquestionably influences the prospect of implementing the rather vague concept of strengthening NATO's "European support": on the one hand, it is easier to overcome the institutional obstacles to the reform of the bloc while on the other, West European allies are becoming less interested in adopting burdensome military obligations;

—the destruction of nuclear missile systems in conformity with the INF Treaty forms a breach in nuclear escalation (it was believed that American "nuclear guarantees" to Western Europe were more reliable if the USA was able to respond to aggression against its NATO partners with a nuclear strike from Western Europe but not its own soil) and reliance on nuclear weapons in the strategy of the North Atlantic alliance is thereby undermined;

—from Washington's point of view, the prospect of further progress along the road of nuclear disarmament and inevitable lessening of the emphasis on nuclear power in NATO's military plans as a result presuppose the intensive development of the potential of the bloc's conventional weapons, whereas in the opinion of many influential West German politicians, the USSR's readiness for the asymmetrical reduction of its nonnuclear forces opens up a real alternative to the large-scale buildup of NATO's armed forces.

Thus, the Soviet factor in its new appearance accelerates NATO participants' rethinking of the role of the bloc as well as its present structure. Numerous proposals are advanced on ways of modernizing the bloc. There are grounds for agreeing with the opinion expressed in the West that the discussion of "European support" in the present stage tends to boil down to the adoption of symbolic measures and to a higher degree of involvement of U.S. allies in joint decision-making in the bloc.

It appears that under these conditions, the Bush administration's policy is characterized not by the search for any kind of radical approaches to NATO, but rather by restrained efforts to reduce tension in the alliance temporarily and perhaps by a greater show of correctness in its relations with its NATO partners. In other words, the changes are more in style than substance.

4.11. One of the most important differences between the foreign political situation in which the Bush administration will have to operate and the situation that existed in the first half of the '80's is the obvious need to regulate numerous regional conflicts. This is in large measure the result of change in both Soviet and American approaches to regional problems, which has contributed to the U.S. readiness to seek compromises and has led to regular consultations between the USSR and USA on the corresponding issues. The following consequences of this change are seen to be:

- that U.S. ruling circles are less concerned about possible change in the balance of power in the Third World;
- that regional conflicts are ceasing to be an instrument for arousing anti-Soviet hysteria in the USA; that the Soviet Union's image in the eyes of the American public is changing for the better;
- that mistrust between the USSR and the USA is diminishing, thereby promoting stability in their interrelations;
- that the USA realizes more and more clearly that regional conflicts are the potential object of constructive Soviet-American interaction.

The Bush administration will obviously continue the dialogue with the USSR on regional problems. Under certain circumstances, it is possible that it will agree to a certain reduction or even termination of military aid to the forces it supports in these conflicts. At the same time, while the administration will evidently not disavow the "Reagan doctrine," it may prefer to implement it in a less provocative, more concealed form. Thus the regional policy of the new leadership in the White House will more likely prove to be a flexible interpretation of the old policy. Most attention will be focused on the conflicts in Central America and the Near East. In the initial stage of its term in office, the new American leadership will more likely come forth with new initiatives on the conflict in Central America, but will hardly force the regulation of the conflict in the Near East and will adopt a wait-and-see attitude toward that problem.

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### Europe 1992

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[Article: "The Consequences of the Formation of a Joint Market in the European Community" (Material prepared by the Western Europe Research Department of IMEMO, USSR Academy of Sciences) txt  
[Text]

#### 1. The program for forming a joint market in the EC

1.1. The creation of the customs union was one of the principal accomplishments of the EC. Nevertheless, despite its existence, there continued to remain many trade and economic barriers of a nontariff nature (in taxation, standardization, etc.) that became a serious obstacles to in-depth integration. EC bodies estimate that the absence of a real internal market costs Community member nations approximately 4.3-6.5 percent of their GNP. Common border crossing expenditures in the

Community total approximately 12 billion ECU's [European currency units] a year, 1 billion of which are spent waiting at border posts. Losses resulting from the lack of free competition for state orders are estimated at 40 billion ECU's (uncompetitive national products are purchased), while the differences in national norms cost 40-50 billion a year. Such a situation prompted the adoption of the decision to eliminate the barriers that remain.

1.2. The joint market of the EC was conceived as a space without internal boundaries in which goods, capital, services, and civilians move freely. The goal of creating the joint market was recorded in the Single European Act that was signed in February 1986 and that took effect on 1 July 1987 after being ratified by all EC member nations. The realization of this goal was scheduled for the end of 1992.

1.3. For the purpose of concretizing the task of creating the joint market, the Commission of Economic Communities devised a plan that included approximately 300 measures to eliminate different barriers in trade and economic exchange between EC countries and that was the basis for the White Paper written in June 1985. EC member nations and bodies were called upon to coordinate and adopt measures to eliminate barriers in accordance with proposals of the CEC and the decisions of the EC Council of Ministers within the approximate time-frame indicated in the Paper. About 70 directives had already been approved by the beginning of 1988.

1.4. It is assumed that the joint market will be created when the Community abolishes physical, tax, and technical barriers between member nations. The following steps are planned for the attainment of this goal.

#### A. The elimination of physical barriers.

- The complete abolition of all restrictions and formalities that obstruct the importation of goods from EC member nations; the abolition of national measures for monitoring imports (including quantitative restrictions that still exist); the introduction of uniform and simplified rules governing trade in goods; the organization of common instead of national border posts; the abolition of certain of customs inspection operations and the lowering of the costs associated with them; abolition of the examination of vehicles delivering freight; unification of the corresponding statistics.
- The establishment of uniform sanitary norms regulating veterinary and quarantine (for plants) inspections of livestock and agricultural produce at the border.
- The reduction or elimination of immigration and passport checks and spot checks of personal luggage at internal borders. Coordination of common rules governing the movement and residence of persons



entering the Community from third countries and the procedure for granting political asylum. The implementation of a coordinated policy concerning visas.

**B. The lowering of tax barriers:**

- The establishment of uniform value added tax rates and the determination of taxable commodity groups common for all countries.
- The unification of rates and procedures used in collecting excise taxes.
- The harmonization of tax legislation; the elimination of internal tax boundaries.

**C. The elimination of technical barriers.**

- The harmonization of technical norms and standards.
- The opening of the markets to state orders of any EC country to all firms in the Community. (Viewed as one of the key areas in the creation of the joint market). The total sum of contracts awarded in the Community in connection with state orders, including the nationalized sector, is estimated at approximately 400 billion ECU's.
- The abolition of legal restrictions on the migration of manpower. Mutual recognition of diplomas, academic degrees, and vocational training certificates by all members of the Community. Facilitation of employment in occupation in other countries. Introduction of a unified European vocational training diploma.
- The creation of a joint market for services. Liberalization of credit, insurance, and other financial services. Elimination of transport quotas. Liberalization of the market for services in the sphere of sophisticated technologies (for example, information services).
- The elimination of restrictions on the movement of capital, in particular; the abolition of national measures to protect capital markets; the liberalization of operations involving securities (emissions, purchases, distributions).
- The creation of conditions promoting industrial collaboration. The unified reform of legislation concerning firms. The adoption of coordinated measures to protect intellectual and industrial property. The development of European patents and European trademarks. The reform of the system for taxing company activity (the establishment of a uniform fiscal regime for daughter and mother firms, for take-overs and mergers). The development of the status of a European joint-stock company.

1.5. In order to implement these principles, it is planned to reform the integration mechanism in the following directions:

—Changes are being made in the institutional structure of the EC system in order to make it more effective by raising the role of the CEC, the European Parliament, and the European Court.

—The sphere of application of unanimity in decision-making is becoming narrower in the process of creating the joint market and the use of the voting by a qualified majority is expanding. Most of the directives will be specifically adopted by the qualified majority (this procedure will affect approximately 200 out of the 300 scheduled measures). Exceptions: directives pertaining to indirect taxes, the unrestricted movement of persons, the rights and interests of state employees, and decisions leading to the abolition of previously approved measures pertaining to the transfer of capital.

—it is planned to expand cooperation in the area of currency with the aim of creating a European currency system and the European currency unit and to strengthen the coordination of the economic policy of member nations. In the interests of socioeconomic convergence and the "unity" of EC participants, the Single European Act prescribes the adoption of measures to diminish regional disproportions in economic development and to increase the resources of the structural fund.

—The intention to continue the reform of European law and to expand the area of its application is recorded.

**2. The European Community after the creation of the joint market**

2.1. The decision to create a joint market in the EC was occasioned by a number of factors, the most important of which is Western Europe's economic lag behind its principal competitors—the USA and Japan, its lost positions in modern technology, and the Community's enormous economic as a result of the lack of unity among the various states. The numerous trade and economic barriers that still persist have become an obstacle to the further development of integration. What is more, in order to protect their economies, EC members have once again put up hidden protectionist barriers. In the '70's and early '80's, in the development of integration there were signs of stagnation that served as a nutrient medium for "Europessimism." The Community did not seem to have any real prospects for future progress.

The existing situation demanded that EC countries change the course of events and bring forth fundamentally new initiatives. The nature of the changes incorporated in the Rome Treaty that formed the Community suggests that the EC had entered a qualitatively new stage in its development.

2.2. Measures to create a joint market will occupy a central place in all EC activity in the years ahead. The course of their implementation will in large measure also determine the success of other Community programs. But this is not the only way the new stage in the development of the EC differs from the previous stages. Structural policy (branch and regional), collaboration in science and technology, currency and financial integration, and political collaboration will be the other major directions in which the Community will be significantly more active. These key directions in the development of integration must complement one another; progress in any one of them must facilitate the solution of problems in others. To be sure, among Soviet specialists, there is also another point of view: that the creation of the joint market relegates the task of completing the currency union to the background and slows down the implementation of other EC programs.

It appears unlikely that all the basic measures indicated by the authors of the White Paper will have been realized by the end of 1992 (as planned in the Single European Act). Nevertheless, the greater part of them will evidently be carried out in the '90's, thereby leading to a qualitatively new market within the EC.

2.3. Among the factors hindering the creation of the joint market are: the increased differentiation of EC members in respect to level of economic development; the possible worsening of the socioeconomic situation, which lessens the inclination to compromise; the absence of a "locomotive" behind integration because the Federal Republic of Germany has ceased to play the role of the leading driving force behind this process; technical and political difficulties in overcoming existing differences between EC countries, especially in their tax systems; the reluctance of governments to substantially relax national levers for influencing economic processes; and the fear of stiffer competition and its social consequences.

There is reason to believe that the implementation of the indicated measures in the EC will not in fact lead to the creation of a truly joint market comparable with national markets. Differences will persist in income tax rates, wages, forms and types of insurance, social security and medical care systems, and the conditions under which all types of assistance, including unemployment compensation and pensions, are provided. National differences will also continue to exist. Consequently, the creation of a joint market does not mean the disappearance of national markets. They will be preserved even though they will undergo significant leveling.

2.4. The very concept of the joint market does not presuppose the "dissolution" of national economies in the unified West European economy. Even after this market has been created, the national state will possess substantial economic autonomy. Complete power to

make the most important decisions will still remain in the hands of the national governments. The sphere of currency, monetary and credit policy will still be subject to national jurisdiction.

Nevertheless, the implementation of these plans will promote the closer cohesion and interpenetration of the economies of countries participating in the EC. A qualitatively new community—the joint market—will come into being. This will prompt countries in the association to develop common structures in the currency and credit spheres at the upper levels of the superstructure that stand above the market, i. e., in the economic regulatory mechanism, in the institutional system, in the political area. The joint market can thus be the economic foundation for bringing the countries closer together in other spheres. Unifying tendencies will evidently predominate over disunifying tendencies. The search for joint solutions will be increasingly a necessity given the increased interdependence and dominance of market forces that are escaping national control. This will encourage the reform of the decision-making mechanism in the EC and will increase its effectiveness through the strengthening of the national principle in the regulation and enhancement of the flexibility of the institutional system, which will in turn facilitate the problem of creating the joint market.

2.5. The dependence of the competitiveness of West European capital on the degree of liberalization of the domestic market is quite obvious. It is estimated that trade and economic barriers inflict a direct loss on companies operating on the territory of the Community in the amount of 10-12 percent of their aggregate profit. A considerable part of this damage is sustained by West European firms because three-fourths of their sales are within the region and more than half of their products are sold in EC countries. Higher production costs resulting from the adaptation of West European producers to the narrow framework of national markets total 10 billion ECU's a year.

The creation of the joint market will make West European companies more competitive as a result of the elimination of losses in intraregional trade. Nevertheless, it will not immediately eliminate the losses that are generated by the irrational structure of production. Reorganization of the production base may drag on for 10-15 years and will require enormous additional capital investments. The increased requirement for capital may worsen the terms of financing of borrowers from companies that do not belong to the EC. Competition between banks will intensify and the scale of accumulation of money will grow. These factors will tend to make financial resources and services more accessible.

2.6. A dramatic increase in the concentration and centralization of capital at the microeconomic level is to be expected under the influence of mounting competition in the joint market. European companies will become larger and relations between them will be more intensive.

Investment activity all throughout the EC will be free of all obstacles. The abolition of restrictions on the granting of credit will have a stimulating impact on operations between firms within the region. Liberalization of the floating of bonds and the sale of stocks not quoted on stock exchanges will promote the "interbreeding" of the capital of European investors. There will be an increase in the influx of foreign productive capital. The joint market will become more attractive to American and Japanese firms who will also find it more feasible to invest in the region since companies located outside the EC will find themselves in a relatively worse situation because of the necessity of overcoming numerous barriers at the external borders of the Community. The expansion of foreign capital will stir up competition in the joint market even more. The time required to put S&T innovations into practice will obviously be shorter. Competition will tend to keep prices from rising. The range of services will be expanded, they will be more varied, and their quality will be still higher.

On the whole, there will be a further increase in the division of labor in the region. The location of the productive forces will be more rational and labor productivity will grow. The economic growth rate and the growth rate of employment will probably rise. According to a number of estimates, the aggregate effect from the creation of the joint market will increase the grouping's gross internal product by 4.5-7 percentage points, will curb inflation by 4.5-6 percentage points, and will create 1.5-5 million additional jobs. However, some Soviet specialists believe that there will inevitably be an initial slowdown in the economic growth of countries in the Community (in connection with the necessity of adapting existing organizational structures to the new market conditions), that unemployment will be higher, and forecast improvement of these indicators only in the distant future.

2.7. The tangible progress that has already been attained in the liberalization of the movement of capital will have a dual impact on the European monetary system. On the one hand, the removal of restrictions will create problems for its functioning. If large discrepancies are seen in the implementation of national economic policy, massive flows of capital might destroy the system, thereby necessitating frequent revisions of exchange rates. On the other hand, the liberalization of the movement of capital is an important step on the road to monetary integration. The changes that are taking place will encourage the ever closer coordination of the policy of central banks in EC countries and in the future—the establishment of a single, central EC bank. It can be assumed with a high degree of probability that there will be an increase in the use of ECU's both at the international level and in commercial turnover in order to serve the growing need to settle accounts in the expanding joint market.

2.8. The formation of the joint market is a necessary prerequisite to the formulation of a broader, more highly coordinated policy of West European countries in the

area of science and technology and the creation of a European technological community. Regional integration of science and technology has already gone beyond the framework of the EC (the "Eureka" program, for example) and has exceeded the breadth of other directions of integration. However as a result of the lack of unified technical standards alone, approximately 20 drafts of the program are experiencing serious difficulty in developing high technology products. Therefore, "Eureka" member nations have repeatedly emphasized that securing the unrestricted movement of science-intensive goods and services across national borders and the introduction of uniform standards and similar measures will eliminate many factors impeding the development of programs while at the same time promoting the consolidation of scientific and technological resources, closer cooperation between industry and scientific institutes, and the prevention of "brain drain" from the market.

The projected completion of the joint market coincides in time with the end of the second EC framework program of scientific research work and the package of programs for the development of sophisticated technologies. Under these conditions, the new integrated EC scientific research program will be conducted with due regard to the latest changes in overall EC integration strategy and will make provision for facilitating the access of European Free Trade Association (EFTA) member nations to it on the one hand and for increasing the volume of resources allocated for these purposes on the other.

2.9. It should be said that social structures in EC countries will undergo serious changes (especially in South European countries). They will affect the working class to the greatest degree. The modernization of industry and the acceleration of scientific-technological progress will tend to amplify differences in the status of individual groups of the working class and the working people in general. It is also possible that the EC may develop into a "dualistic society" in which differences in socioeconomic status—in the level of social protection, and in the social psychology between the "traditional" and the "new" working class will intensify. On the other hand, social conditions may be equalized on another plane—based on the openness of the economy. This will be furthered by the social policy of the EC, which envisages the unification of individual directions of social programs in member nations and the implementation of large-scale measures in the area of social security, education, health care, the organization of leisure pursuits, etc.

2.10. The position of communist parties and the trade union organizations connected with them will be weakened in the new situation as a result of the nonacceptance of the very idea of the joint market by many of them and their indiscriminate criticism of Community policy.



2.11. The creation of the internal market may promote military economic integration in Western Europe. International cooperation will be encouraged in the production of weapons and in the training of cadres for the military industry.

2.12. The creation of the joint market will draw EFTA member nations into the integration orbit. The EC and EFTA are already collaborating intensively and are going beyond the framework of commodity exchange (example: framework agreements on science and technology). A number of EFTA member nations—Austria and Norway in particular—are discussing the problem of joining the EC. If one or two EFTA countries join the EC, the EFTA will most likely vanish as a grouping. Thus, measures to create a joint market in the EC stimulate the formation of a broad West European economic complex.

2.13. The higher degree of coordination of economic policy in the EC in connection with the creation of the joint market also prompts the closer coordination of their foreign policy. The Community enters into relations with other states to an ever greater degree as a whole, as a political and economic unit. The changes that are taking place in connection with the creation of the joint market have far-reaching consequences for the USSR and for CEMA countries in this context.

### **3. The consequences that the creation of the joint market hold for the USSR and CEMA**

3.1. It will be considerably more difficult to realize the task of increasing exports of the USSR's industrial products to the EC's joint market. Stiffer competition from EC products will make it much more difficult for our enterprises to market their products and will make higher demands on their quality, particularly in the case of high tech products. Moreover, an outside country that does not participate in the creation of the joint market will find it more difficult to penetrate this market. Additional problems will confront science-intensive products competing with their EC counterparts. The introduction of rigid unified norms and technical specifications will make it difficult to adapt to the demands of the market. These problems will arise if the USSR does not join in the process of standardization and development of technical norms on a unified basis—a process that is being actively developed in the EC. Products that have a substantial impact on the environment are affected to a still greater degree by EC regulatory measures. The Community's ecological norms are aligned at the highest level. In general, the elimination of different types of non-tariff barriers among EC nations places at a disadvantage the products of countries that do not participate in this process and whose companies do not have affiliates on the territory of Community member nations.

The situation is aggravated by the fact that the part of the program of creation of the joint market that will affect the foreign economic interests of the USSR to the greatest degree (technical and legal restrictions, norms, standards, etc.) will be implemented in most real terms by the year 1992.

The number of so-called export niches that still exist in considerable number at present in EC countries will be reduced and there will be less room for exploiting differences in the conditions of sale of products to individual firms. New forms for coordinating exports and imports will have to be found.

3.2. Soviet exporters of raw materials will find themselves in a somewhat different situation. The creation of the joint market will help to accelerate the economic growth rates of EC countries and will raise the demand for raw-material commodities. To be sure, the introduction of energy- and resource-saving technology, the lowering of the materials-output ratio, and the transition to the use of unconventional energy sources will have the opposite effect. These two tendencies will cancel one another out to a certain degree and the demand for Soviet exports of raw materials will most likely remain stable.

3.3. At the same time, there will be increased EC interest in the USSR and the CEMA countries as a market for its products. It can be assumed that West European firms will become more interested in joint enterprises as a way of penetrating foreign markets. There will be increased opportunity for the development of cooperation in science and technology.

The EC is interested in using the USSR's scientific potential. The "Eureka" program has made specific proposals to Soviet institutes to carry out certain kinds of developmental work under contract, but no agreement has been reached as yet. CEMA bodies, in turn, while proclaiming the possibility of participation of Western firms in the scientific programs of socialist countries have not taken any practical steps to draw them into their projects.

The strengthening of the EC's international position and increased interest in markets for science-intensive products may prompt the Community to strive to exclude certain dual-purpose goods and technologies—albeit not at the highest level—from the controlled commodity lists, which would nevertheless open up additional possibilities for the development of cooperation.

3.4. With the creation of the EC's joint market, the credit policy of member nations will be more closely coordinated vis-a-vis socialist countries. The USSR will have less opportunity to maneuver in this area. On the other hand, the strengthening of Western Europe's economy may increase its significance as a source of financial resources and may give us additional opportunity to float bonds in its markets. There will be increased

opportunity for short-term credit for imports of goods and services as a result of increased competition in the banking sphere and the advent of new types of integrated financial services. It will be possible to increase the motivation of West European banks as go-betweens in financing imports from socialist countries. However their interests in this area will meet with the resistance of national industry.

In the light of the changes that are taking place in the EC, the international operations of socialist banks will become more complex because of more rigid European standards concerning the procedure for conducting transactions, the speed with which operations are conducted, information support, the technical and organizational level, and the nature of the services that are provided. In order to maintain the competitiveness of the banks of socialist countries in the currency and credit markets of EC countries, additional attention will have to be paid to their technical and organizational level, they will have to be plugged into European communications and financial-economic information transmitting systems, and they will have to join international banking unions. The direct expansion of the institutional network of socialist countries' banks in the EC will encounter growing difficulty in the immediate future. To all appearances, indirect methods of penetrating West European capital markets (participation in the capital of banks, financial institutions, and holding companies; joint financial firms, etc.) will entail smaller expenditures of currency resources.

The creation of a joint securities market in Western Europe and the unification of corporate tax systems will result in the equalization of incomes from various types of securities at the rather high level that is the average for Europe. Socialist countries will find sufficient demand on the part of investors for their securities only if the income generated by them is on a par with this average European level.

3.5. In the long haul, the EC may become a zone in which currency is relatively stable. The currencies of countries participating in the Community, in addition to the ECU, which is an alternative to the dollar, may play a positive role in the diversification of the currency reserves and incomes of the socialist countries. It is essential to take into account the trend toward using the ECU increasingly in international circulation and its greater stability vis-a-vis the dollar. Serving the needs of the joint market will strengthen the ECU. But the ECU itself will still not have substantial significance comparable to the role of the dollar in international transactions for a long time to come.

3.6. The creation of Soviet enterprises in a given EC country under the new conditions would mean penetrating the entire joint market and greater potential for maneuvering. This also applies to joint Soviet-EC country companies already in existence. It is obviously feasible to give some of them production functions in

addition to marketing functions. The unification of standards in the EC (if properly used in our interests) could reduce the costs incurred by Soviet enterprises in the process of adapting to local sales conditions.

3.7. A fundamentally new situation is forming in the European direction of Soviet foreign policy. Virtually all countries in Western Europe (including neutral countries) are feeling the growing influence of the EC. Countries not belonging to the EC are considering the search for ways of interacting more closely with the Community.

The EC's joint market will also become more attractive to CEMA countries. This will intensify disunifying trends within the CEMA. It will be difficult to articulate a joint CEMA policy regarding relations with the EC. A common line can obviously take shape only if all CEMA countries, including the USSR, strive to establish the closest possible contacts with the EC. A limited approach will increase the divisions within the CEMA. On the other hand, there is need for an immediate, in-depth reform of the CEMA with due regard to the EC's integration experience.

3.8. The strengthening of the EC might lead to greater discord between centers of power in the capitalist world. A direct dependence exists between the strengthening of the EC and the rising level of its independence, especially its economic independence. The other side of the same process is that the USSR will gain a powerful new partner in its foreign policy.

3.9. The consolidation of EC countries in the course of the creation of the joint market and the transfer of a larger volume of their contractual powers to Community bodies will make it difficult for the Soviet Union to conduct its European policy through bilateral channels. Essentially there will be a need for a new mechanism for implementing this policy that includes the conversion of a considerable part of the relations to a multilateral basis with due regard to the specifics of relations with EC organs. The USSR has practically no experience conducting such relations at the official level. Another reason why the situation is qualitatively new to the Soviet Union is that it will henceforth have to realize its foreign policy goals in two directions at the same time: multilaterally and bilaterally.

3.10. The EC mechanism is introducing elements of greater predictability into the association's activity and is securing a certain measure of stability in the grouping's economic and political course. Most EC measures conform to the interests of this regional organization's economic security and are a kind of model, the elements of which can be used in building an international system of economic security. It will be relatively easier to combine the relatively whole complex of EC countries (than separate countries) With the East European part of the "European home" if increased integration in the EC is in parallel with the improvement and development of



EC-USSR and EC-CEMA relations. Within the framework of the EC, there is a certain averaging of the policy of member nations, which can neutralize extremes in their politics. The EC's foreign policy ensures the priority of general European problems. To a certain degree, this facilitates the search for compromises in the USSR's European policy.

3.11. The strengthening of the EC and the growth of its influence in international affairs have not yet been properly reflected in Soviet foreign policy. The USSR and CEMA countries must adapt to the political and economic realities that are forming in Western Europe. In the absence of progress in this direction, the creation of the joint market within the framework of the EC will divide Europe into two parts to an even greater degree and may seriously complicate the development of European cooperation.

3.12. The implementation of individual measures to adapt domestic industry to the new marketing conditions in the West European market is an important but insufficient response to the changes that are taking place. There is need for a harmonious, long-range concept of the development of relations with the EC as the basis for implementing a policy capable of attracting the Community to cooperation with the USSR.

The experience of EFTA countries merits study in this regard. The association responded to the EC's plans to form the joint market by advancing the idea of a joint economic space that would incorporate both organizations. This would in fact mean involving EFTA countries in certain measures relating to the formation of the joint market.

3.13. In the light of the concept of the "common European home," the interaction of the USSR and other CEMA states with the EC in the policy area appears not only possible but also necessary. There are certain points of contact in their positions on a number of important issues (European security, the regulation of regional conflicts, etc.). Intensive relations should be organized with various links in the mechanism of foreign political cooperation within the framework of the EC, *inter alia*, at the CEMA level. Even now there is need for active contacts with representatives of a nation that is carrying out chairmanship [*predsedatel'skiye*] functions in the EC, with the European Parliament (taking into account the rising role of this body in the system of the Community's institutions and the examination of questions relating to international relations in it) with other EC bodies.

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## Revival of WEU

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[Article by Georgiy Platonovich Burduli, scientific associate, Scientific Information Center for the Social Sciences, Georgian SSR Academy of Sciences: "The Rebirth of the West European Union"]

[Text]

### 1. Centripetal forces

1.1. The increase in the level of activity of the Western European Union, which had been in a state of political lethargy since its creation in 1955, is usually associated with the session of the WEU council that was held in Rome (1984), in which defense ministers and foreign affairs ministers of all member nations participated for the first time in the 30 years the organization has been in existence. The Rome declaration opened a new chapter in the history of the WEU.

1.2. In '60's and '70's, the Union's member nations were simply not prepared to make more or less independent decisions in the military area. In other words, Western Europe did not consider itself an equal partner of the USA and on the whole contented itself with a secondary role in the protection of the West's interests. The correlation between the two centers of power underwent significant changes in the '80's, and Western Europe "matured" for the adoption of independent decisions, *inter alia*, in the military area, that did not run counter to Atlantic interests but that also were not entirely subordinate to Washington's will. Such evolution of the West European approach to defense problems would seem to be not only the consequence of objective circumstances but also the result of American pressure intended to force West European countries to increase their spending on NATO.

1.3. American pressure has been expressed in all manner of forms—from traditional intimidation about the "Soviet menace" to attempts by Congress to question the feasibility of the American military presence in Western Europe. While in the first half of the '70's, such sentiments were to a certain degree tinged with liberalism and based on the attempt to revise obligations to NATO in favor of internal priorities (for example, Senator M. Mansfield's amendments in 1971 and 1974), in the second half of the '70's, there was a move to the right and the dominant trend was to advise allies to "do more than they are doing now" (Nunn-Bartlett Report, 1976-1977).

In 1984, Democratic Senator S. Nunn sponsored a bill calling for the partial reduction in American military personnel in Europe if the allies did not increase their contribution to NATO's defense expenditures. And even though the Senate rejected Nunn's idea, 41 senators voted for the amendment, which should have served as a warning to the allies. H. Kissinger's famous article on

plans for reforming NATO was published in early 1984. In addition to the problem of redistributing the financial and military burden, the article discussed possible structural changes (for example, Kissinger suggested appointing a West European officer Supreme Commander in Chief of Combined NATO Armed Forces in Europe and appointing an American politician Secretary General of NATO) that would make the European allies entirely responsible for supporting the activity of conventional NATO forces and would consequently raise their responsibility for the choice of means and tactics. For the sake of justice, it should be noted that such "nonisolationist" sentiments of congress and of individual experts as well did not enjoy the support (in any case, open support) of the administration. Nevertheless, pressure by congress in conjunction with other means of exerting pressure was a certain stimulus to move Western Europe in the direction of limited autonomy in the military area. It can be assumed that the revival of the WEU is a double reaction to the possibility of reducing the American military presence in Europe. First, there was the attempt by West European countries to convince Washington once more that their contribution to their own defense was quite considerable and that they were sharing this burden with the USA. Second, if the United States carries out its long-standing threat (which is unlikely if at all conceivable), Western Europe will be sufficiently integrated (and strong) in a military sense to stand up for its own interests.

1.4. The increased self-awareness of Western Europe based on the steadily growing economic and political potential of the nations in this region and the striving for self-affirmation as an equal partner in the Atlantic alliance obviously also played a part in the increase in WEU activity. In the postwar period, when NATO was created, relations between the USA and Western Europe were organized according to the formula "defender and defended," which at that time reflected the existing economic inequality. However the realities of the '80's make this formula less indisputable.

But at the same time, when West European leaders discuss the goals and tasks of the WEU today, they do their utmost to emphasize that the increased activity of this organization and the expansion of its functions do not in any way mean that Western Europe is retreating from the principles of Atlantic cooperation. To the contrary, as if anticipating the negative reaction of Washington, they continuously emphasize that the WEU will function within the framework of the strategy coordinated within NATO but on a more independent, equal basis. Immediately after the Rome session of the WEU, G. Howe, Great Britain's secretary of state for foreign affairs, formulated the tasks of the "reborn" union as follows: "The sense of using the WEU is that the (West) Europeans themselves arrive at conclusions based on their own analysis of interests that are acceptable to them. But the goal will be to demonstrate more graphically, *inter alia*, to our own community, that the Atlantic arch really has two supports and that one of them is truly

European." An interesting detail: in an interview with the newspaper FIGARO in October 1987, A. Giraud, the erstwhile French defense minister, declared that the WEU was called upon to become "the main axis of European defense." The "axis" or one of the "supports?" It appears that the use of different terms to denote the future role of the WEU is not by chance but rather reflects the sense that these countries invest in the end result of the increased activity of the WEU.

1.5. In early 1988 the Western press published an open letter from E. Interman (France), one of the heads of the WEU agency, responsible for the development of cooperation in weaponry, on the known confrontation between the governments of France and Great Britain. It emphasized, in particular, that in the opinion of Paris the WEU should be used as a counterbalance to American dominance in NATO whereas London defended the thesis that the main task of the WEU is to encourage more active cooperation between West European countries in the area of weaponry, while not giving Washington the impression that it will henceforth be dealing with a "European bloc."

While it is as yet difficult to say how far these disagreements will go, it appears that they are exaggerated. While Britain unquestionably cherishes its "special relationship" with Washington, one cannot lose sight of the desire to participate in the deployment of a West European "nuclear umbrella" if only for the fear that France might otherwise be more entitled to claim the role of the leader of "European defense." On the other hand, France is the only country in Western Europe that has the triad of strategic nuclear weapons and tactical nuclear systems that is moreover not integrated in NATO's military structure—that has more freedom in its actions and that is inclined to view the WEU in the context of its ambitions as an independent nuclear power and its desire to secure the leading position in a "unified Europe."

As regards the Federal Republic of Germany, the Western European Union's abolition in 1984 of restrictions on the production of strategic bombers and long-range missiles became a notable stimulus for Bonn to take an active part in the revival of the WEU. Bilateral cooperation with France in military organizational development was probably also a factor. But on the whole, the three countries were largely (if not decisively) responsible for the revival of the Western European Union.

1.6. Returning to the reasons for the increase in the activity of the WEU, it is also necessary to give the factors that could play the part of a catalyst in this process their due. The placement of American medium-range missiles in Western Europe and President R. Reagan's announcement of the SDI program in 1983 were such factors. The deployment of Euromissiles, even though under U. S. pressure, was carried out with the consent of West European governments. At the same

time, the implementation of NATO's decisions was the equivalent of lowering the "nuclear threshold" as defined by Washington. If one moreover assumes the existence of a space shield capable of protecting U. S. territory from a retaliatory strike, West European fears that the aggregate of the two programs (Euromissiles and SDI) might lead to the strategic "disuniting" of allies on different shores of the Atlantic.

1.7. Economic considerations played a definite part in the increase in the activity of West European military cooperation. The interests of West European military industrialists have been infringed for a long time despite feeble attempts to coordinate efforts in this area. Persistent disunity has prevented West European monopolies from successfully competing with their overseas partners. It is sufficient to note that the Old World still buys approximately eight times more weapons and combat equipment from the USA than it sells. While it is difficult to assume that integration within the WEU will be a panacea for all ills, it nevertheless might improve West European industrialists' prospects of getting their own military market away from the Americans.

## 2. NATO's "European support": prospects of evolution

2.1. The adoption of the "Platform of Principles of European Security" by a session of the council in The Hague in the latter part of October 1987 became what was probably the most significant event in the history of the WEU. While a number of documents were produced in the period following the Rome declaration which laid the foundation for commencing the revival of the WEU, it was nevertheless specifically in The Hague that the specific principles of future military cooperation of West European countries were formulated. The adoption of this program document was preceded by almost a year's discussion and coordination at various levels. Its main provisions were set forth in the "Charter of Principles of West European Security" by French Prime Minister J. Chirac at the WEU Assembly in December 1986.

Officially, the document was conceived as a response to the "Reykjavik challenge," i. e., the "challenge" of two great powers that, in the words of French leaders, intend to resolve problems of global disarmament without the participation of the West Europeans. In Chirac's opinion, under these conditions the Soviet Union and the USA must be forced to "listen to Europe's voice." It appears, however, that the "voice of Europe" was addressed primarily to Washington. In any event, Chirac believed that "such a demarche would be beneficial to the Atlantic alliance in which the presentation of our convictions is oftentimes fragmentary. What is more, our American allies could in their negotiations with the Soviet Union draw upon the firmer assent of European countries to the fundamental principles of mutual security."

It would seem that behind these arguments are plans that go far beyond the mere strengthening of NATO's "European support" and the concern for the firmness of the American position in negotiations with the USSR. The issue is the total political, economic, and military unification of West European countries. Essentially it is the creation of a new European structure that envisages qualitatively different military interrelations between seven West European countries compared with those that exist within the framework of the North Atlantic alliance.

2.2. France's age-old striving to preserve its independence on defense policy issues and, if possible, to head the movement for the "Europeanization" of the Old World's defenses is common knowledge. It is therefore not surprising that France was the initiator of the creation of a "European defense." Nor is it by chance that the "Charter of Principles of West European Security" contained two key points: (a) the need for West European countries to create powerful armed forces equipped with conventional arms which in their effectiveness approximate tactical nuclear arms; and (b) the necessity of preserving France's and Great Britain's nuclear forces which in the event of the American withdrawal from Western Europe will remain the sole means of "intimidating the aggressor." French leaders have as a rule buttressed their arguments with references to the preparation of the Soviet-U.S. INF Treaty. Nor have they lost sight of the prospects of a nuclear-free Europe and finally, as a consequence of everything that has been said above, the possibility of the considerable weakening of strategic ties between Western Europe and the USA.

French diplomatic efforts were ultimately crowned with success even though some West European countries, Italy in particular, initially adopted a restrained stance concerning the "charter." It was also characteristic that the document was approved in October 1987, i. e., when the INF Treaty, despite a brief postponement of the summit meeting, had become a virtual reality. Thus, the arguments advanced by France fell on receptive soil and bore fruit all the more so because the concern over the imperfections of "European support" were shared by many West Europeans. Following a session of the WEU Council in Luxembourg (April 1987) that ended without producing any results, F. Bonnar, the publisher of "Sixteen NATO Countries," wrote in particular: "Growing dependence irritates the Europeans at the same time that the lack of control over their own strategic nuclear potential in the alliance encourages immature reactions. It is specifically such feelings that can provide the impetus to revive the WEU."

The document proposed by J. Chirac was initially called a "charter," but the session of the WEU Council in The Hague approved the "Platform of Principles of European Security." Commenting on the results of the session in The Hague, the French press maintained that the only substantive difference between the two documents was terminological since all of the prime minister's points



had supposedly been taken into account by WEU member nations. However, there is also another point of view. In the opinion of H. van den Broek, Netherlands minister of foreign affairs, this "platform" is something less than the more obligatory "charter" that "France wanted and that—it was thought—might cause Washington to wonder about (Western) Europe's commitment to NATO." Thus, in one way or another, the "platform" will hardly give Washington such a basis—after all, the text unequivocally states that the West Europeans "intend to strengthen the European basis of the alliance" and that the "security of the alliance is indivisible."

2.3. After adopting the "platform," defense ministers and foreign affairs ministers of WEU countries essentially articulated the principles on which the collective defense of Western Europe must be based, specifically: maintaining combat effectiveness at a level that will restrain any aggression or that will serve as a counterweight to the threat of aggression; the combination of nuclear and conventional forces on the premise that the nuclear component is the only means capable of confronting a potential aggressor with the threat of a risk that is unacceptable to him; the necessity of the considerable presence of American (nuclear and conventional) forces in Western Europe; the principal role is assigned to West European conventional and nuclear arms.

2.4. Among these principles, particular mention should be made of nuclear deterrence, the exceptional role of which is unequivocally emphasized in the document. There is discussion of the deployment of the West European "nuclear umbrella" based on the French and British strategic potential. This decision heralds a qualitatively new approach to deterrence strategy in Europe and will unquestionably be reinforced by the appropriate material base. The expansion of French and British nuclear forces is planned even now. What is more, the French Parliament's commission on defense has suggested discussing with Great Britain the possibility of developing long-range cruise missiles; the possibility of the joint development and production of nuclear weapons is being explored. A proper place in the "platform" is assigned to such tasks in the organizational development of powerful conventional armed forces, to the WEU's attitude toward crises outside Europe, to arms control, and to the East-West dialogue.

2.5. Official Washington's reaction to the decision made in The Hague was positive. In a televised speech on 4 November 1987, President R. Reagan expressed satisfaction over the approval of the "platform" which in his opinion would give hitherto unprecedented impetus to the bolstering of NATO's "European support." Such an evaluation is especially characteristic against the background of the earlier U. S. attitude toward the activity of the WEU. No later than 1985, R. Bert, assistant secretary of state for European and Canadian affairs, warned WEU leaders against searching for a general approach to arms control problems outside NATO. For now, it is difficult to imagine that the WEU would soon become an

independent entity in arms control negotiations, but it is also impossible to say the reverse with certainty, particularly because there is a section of the "platform" that entirely admits such a possibility. (The report of the Committee on Defense to the WEU Parliamentary Assembly, which rejected NATO's claim that the Warsaw Treaty Organization had the preponderance of nonnuclear forces, can be considered the first, rather timid attempt at an independent approach to disarmament problems. The report evoked the undisguised irritation of high-ranking NATO military officials.

In one way or another, there was no hue and cry from Washington even though the latter is still skeptical about the WEU. Nor is the possibility excluded that the WEU's present activity will serve as a catalyst triggering congressional sentiment to reduce the American military presence in Western Europe.

2.6. The question of expanding the composition of the WEU, primarily through the incorporation of countries on the Pyrenees Peninsula was placed on the agenda of that organization following the conclusion of the Rome session. Initially, the Portuguese leadership viewed joining the WEU as a logical continuation of plans for economic and political integration in the Common Market. Then things came to something of a standstill evidently because of the need to adopt very serious obligations. At the same time, Portugal had never occupied antinuclear positions and had not refused to participate in the nuclear strategy of its allies. Moreover, joining the WEU promised certain political and economic advantages that ultimately proved decisive. While the situation with Spain was more complex because of that country's non-nuclear status, considerations favoring total integration in the West European community and the interests of that country's military industry—one of the largest exporters of weapons—played their role.

Differences in the positions of Portugal and Spain were graphically manifested when their foreign affairs ministers signed protocols of their entry into the WEU. Portuguese minister J. de Deus Pinheiro declared his full support for the WEU's principles and goals; F. Fernandez-Ordóñez, his Spanish colleague, was forced to make significant qualifications. While recognizing the NATO strategy of nuclear deterrence on the whole, Spain confirmed its position relative to the prohibition on the placement, stockpiling, and introduction of nuclear weapons in the nation. N. Serra, Spain's defense minister, in turn, noted that Madrid did not intend to send its military units beyond its national borders and resolutely spoke out against contributing to the expansion of the naval presence of West European countries in the Persian Gulf.

The expansion of the composition of the WEU is not a simple arithmetic action (a "seven" becoming a "nine"), but is a qualitative change with all the attendant consequences. First, the WEU now embraces NATO's



southern front, which from a geographical standpoint has already become a real "European support." What is more, the ground is created for discussing problems of military integration in the EC: after all 9 out of 12 members of this organization belong to the WEU. Nor was it by chance that a top Portuguese official expressed the confidential opinion that Portugal views the WEU not so much as NATO's "European support" as the EC's "military support." Finally, the entry of Spain and Portugal into the WEU may fan the arms race in the Mediterranean and this is fraught with dangerous consequences.

2.7. The time has come for WEU member nations to implement the plans that were formulated in that organization's basic documents. The basic direction of development of the WEU is the extension of European integration to the military-industrial sphere. The future of the continent, the prospects of arms control, the dialogue between East and West, and, of course, Atlantic relations depend in large measure on the implementation of these plans.

Disagreements between France and Great Britain concerning NATO were discussed above. There appear to be real signs that France (at least certain circles in that country) is ready to go so far as to transform the WEU into a military political organization that is practically independent of NATO. REPUBLIQUE, the journal of the French Socialist Party, published an article by a group of officers and diplomats under the pseudonym, stating that the thesis of "flexible response" is dead and that NATO no longer has any strategy because this organization no longer has the arms to implement its strategy. Further, on the basis of certain assumptions (for example, substantial progress in the elimination of conventional weapons, the attainment of "equilibrium at the lowest level," the exclusion of any possibility of a surprise attack, and the transition to the formula of "defensive defense"), the conclusion is drawn that the obsolescence of the mechanisms that ensure American leadership (military and consequently political as well) in Europe will become obvious and that the way will be open to the unification of the conventional forces of European countries, France and West Germany first of all, under integrated command that will be not American but European; the choice of such a formula could be carried out under the aegis of a stronger, expanded Western European Union (NATO's "European support"). While the text makes formal mention of "European support," the discussion is essentially about a new military bloc independent of NATO, the creation of which in the event of the implementation of the measures enumerated above would appear anachronistic.

The WEU development program formulated in the platform also appears to be contradictory. While it contains a provision about the necessity of continuing the Helsinki process with the aim of overcoming the division of Europe, the development of military integration within

the framework of WEU will not help to overcome this division and cannot serve the interests of building the "common European home."

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**Changes in CEMA Structure, Functions Needed**  
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MEZHDUNARODNYE OTNOSHENIYA in Russian  
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[Article by Professor Margarita Matveyevna Maksimova, doctor of economic sciences; chief scientific associate, IMEMO, USSR Academy of Sciences: "Reflections on the Restructuring of the CEMA"]

[Text] The Council for Mutual Economic Assistance is observing its 40th anniversary. It can be said without exaggeration that this first international organization in the history of socialist states played a constructive role in the formation and development of their economic intercourse and cooperation with one another. The contribution of the CEMA to the creation of the modern multi-branch economy of fraternal countries, to the strengthening of the socialist community is indisputable.

The present article is not by any means a jubilee article. The author deemed it necessary to concentrate attention on unresolved problems of collaboration and to propose certain variants for modernizing it. It was in no small measure inspired by the heated polemic that has developed in scientific and sociopolitical circles in a number of socialist countries concerning the state of affairs in the community and the prospects for the development of the CEMA.

# I

As meetings and exchanges of opinions with scientists, scholars, and politicians in the community's nations show, dissatisfaction with the state of collaboration is growing virtually everywhere. Bureaucratic obstacles are still blocking ties and cooperation between enterprises of CEMA countries. The rationing system continues to operate in the system of reciprocal deliveries and the structure of reciprocal trade remains stiff. Competition is absent and the credit mechanism is not developed.

As a result, economic relations between CEMA countries not only do not facilitate the solution of their internal problems—overcoming the growing deficit, low product quality, the lag in science and technology, the material-financial imbalance—but also generate new difficulties and intensify the external disequilibrium. Moreover, while in the recent past, CEMA fraternal countries were the Soviet Union's debtors, today we find ourselves in this role. The latter circumstance compels us to agree to the importation of practically any—including inferior, technologically obsolete—products from these countries.

A situation has developed where CEMA countries find themselves faced with the necessity of buying scarce equipment, materials, and consumer goods in the capitalist market on an ever increasing scale. As a result, all of them, with the exception of the Czechoslovak Socialist Republic, have become major debtors of Western banks. Their combined indebtedness is nearly one-eighth of the aggregate debt of developing countries.

Nor can we fail to be put on our guard by phenomena that were not seen in the past such as the breach of coordinated deliveries by partners and the demands of a number of countries that accounts be settled not in swapped goods or transferable rubles but in hard currency. Obligations relating to joint projects have been ignored with increasing frequency. Many international programs of CEMA member nations have been compromised to a considerable degree. The Comprehensive Program for Scientific-Technological Progress, international agreements on specialization and cooperation in production, CEMA food and consumer goods programs remain unfulfilled.

The natural question is: what is wrong? Where does one search for the roots of the negative phenomena that have been so clearly seen in our collaboration in recent years?

The existing situation has in large measure stemmed from objective factors—by the crisis or precrisis state of the economy, by the decline of the population's living standard in many CEMA countries. Under these conditions, every country tries to resolve acute socioeconomic problems in their own way, not counting on the assistance of partners who find themselves in the same situation and not always reckoning with their interests. Differences in perestroika processes and especially the lag of the economic reform in our country unquestionably play a role. Subjective factors associated with differing views of specific avenues of socialist development the ever more appreciable reorientation of the foreign economic policy of a number of countries in the direction of the development of relations with the West, are also operative.

In order to evaluate the urgency and complexity of the problems confronting the community more completely, it is useful to turn to the past. To the extent that the Council has promoted the affirmation of comradely relations, the convergence and coordination of their actions, plans, and economic policy, it helped to amortize those negative consequences of volitional, impulsive decisions of the Stalinist and stagnant periods, that were at odds with the highest interests of the Socialist community—the interests of unity. But the CEMA did not prevent and of course could not have prevented such a phenomenon of the past as the braking or more precisely the curtailment of economic reforms that started back in the '60's in a number of socialist countries (Czechoslovak Socialist Republic, Hungarian People's Republic, the USSR).

We also see the sense of the community's experience to lie in the fact a mechanism of interaction between countries adequate to the model of socialism of those years was created, also for the first time in world practice. This mechanism was created with considerable difficulties, sometimes by groping and trial and error. And this is not surprising.

On the one hand, CEMA aid was to create favorable possibilities for the international socialist division of labor and to help countries to choose their areas of specialization, to develop their reciprocal trade and cooperation, and scientific-technological collaboration. But on the other hand, all this had to be done under conditions when the internal markets of CEMA remained extremely undeveloped and there were strong national barriers on the road to the movement of commodity flows, investments, services, and labor power.

Having a monopoly not only on planning "from top to bottom" but also on the management of the entire national economy, the state—in the person of departments—concentrated in its hands all the rights, starting with the disposition of public property and ending with rigid centralized regulation of production and accumulation, sales and supply, distributive relations, and foreign economic activity. Such a high degree of concentration of economic power in the hands of the state had consequences of a dual nature for the Council for Mutual Economic Assistance.

Peremptory administrative methods of management were also inevitably projected to the activity mechanism of the CEMA itself. But with the substantial difference that the decisions and recommendations adopted by countries and CEMA executive bodies were not and could not be mandatory. The fact of the matter was that given such considerable centralization of state power as was the case in the socialist countries, it was inevitable that if there were no isolationist trends, there would be the striving of center not to relinquish the levers of command and especially not to transfer them to any outsider. Nor did the latter apply to CEMA bodies. It was not by chance that all their attempts at joint forecasting and planning were doomed to fail. As regards the coordination of plans, it essentially boiled down to the bilateral coordination of reciprocal deliveries for five-year periods.

The CEMA mechanism was unique in that the interaction of member nations was limited predominantly to the upper echelon of the bureaucratic ladder. The actual producers of goods, services, and scientific-technical knowledge (enterprises, associations, research institutes and organizations) have not been economic agents with full rights up until very recently. As a result, we have for many decades lagged behind world practice in the area of so-called microintegration—transnational forms of organization of production and R&D, sales and supply, banking, and in the creation of international joint-stock societies, concerns and consortiums, and mixed enterprises.

The inertia of bureaucratism has proven to be so significant that even now that most countries in the community have given the green light to foreign investments and many restrictions on the creation of joint enterprises have been lifted, this process is proceeding at an extremely slow pace. In the USSR, for example, the number of such enterprises in which Western enterprises were participants was nearly 200, while there were fewer than 30 such enterprises in which fraternal countries were partners.

Criticism—entirely justified—is leveled not only at the state of collaboration between our countries, but also at the CEMA itself and the activity of its bodies. The mutual aid principle proclaimed many years ago by the CEMA Charter is essentially exhausted. The current principle is more in the nature of unilateral aid to developing countries—Mongolia, Cuba, Socialist Republic of Vietnam—within the framework of the CEMA. As regards the developed socialist countries, their interrelations must obviously be constructed on another economic basis.

The authority of the CEMA, the purely advisory nature of its decisions, the relatively narrow sphere of competence of its bodies, *inter alia*, in relations with other countries and international organizations, and the fact that it does not have joint financial funds in its hands for resolving the most urgent problems of the community, do not meet the needs of collaboration. The extremely backward level of the CEMA information-statistical and forecasting service is also a hindrance. All this makes it a relatively immobile, ineffective, bureaucratic organization that is poorly adapted to the changed conditions.

The existing practice of selecting specialists for the apparatus of the Secretariat and representative bodies also hardly promotes the authority of the CEMA. Among them, there are few prominent economists and jurists specializing in international affairs; they are primarily staffed by people who are not sufficiently acquainted with foreign trade practice, international law, and the activity of international organizations.

Negative tendencies in the community have also intensified under the influence of the changes that are taking place in the European Community. After long years of stagnation, this organization has carried out a series of radical reforms. As is known, the target of completing a unified internal market by 1992 has been set. The EC estimates that this will make it possible to save between 170 billion and 250 billion ECU's in production costs, which will be 4.25-6.25 percent of the GNP and will lower prices on basic commodities by 5-6 percent.

The single technological, structural, and ecological policy of member nations acquired the force of law. The reform of unified agrarian policy is in progress. Supranational elements of activity have grown stronger. Plans for creating a monetary union with a single currency and a single central bank for EC countries are again being

discussed. The task of creating a political union of twelve countries has been confirmed. At the same time, the "unified European economic space," which includes practically all West European countries, is forming.

These major reforms in the EC will confront countries in the community with difficult questions connected with the formation of an ever more organized joint market and at the same time will make this market more attractive to European CEMA countries.

The signing of the declaration establishing official relations between the CEMA and the EC was a major political act that primarily opened the way to regulation of relations between the EC and each CEMA country individually. The HPR and CSSR have signed economic agreements with the EC. Many CEMA countries have established diplomatic missions in the EC.

But as regards the CEMA proper, it will have great difficulty organizing collaboration with the EC because of the lack of tools for implementing trade policy and the absence of a modern information base. This also encourages countries in the [socialist] community to bypass the CEMA bureaucracy and to expand direct relations with the [European] Community. Nor is it possible to ignore the purposeful policy of the [European] Community proper which is aimed at developing collaboration not so much with the CEMA as with its individual countries.

But all the same, we consider the most important point to be the fact that the mechanism of economic collaboration, the structure, functions, and methods of CEMA activity formed back during Stalin's time and were adapted to the conditions of rigid centralized planning and does not correspond to the goals and character of the economic and political reforms that are being carried out in the nations and the growing need for their close interaction. The unblocking of this deep contradiction, which has become a brake on the integration of countries in the [socialist] community, demands the truly revolutionary restructuring not only of the existing collaboration mechanism but of all Council activity as well, and bold, original decisions and actions by each of its participants.

## II

As is known, the modernization process was inaugurated by the Moscow summit meeting in 1986. Its primary significance was that probably for the first time in our countries' history, there was such a candid, self-critical, fundamental discussion of the state of affairs in the [socialist] community and in the CEMA. It was declared essential to carry out a system of large-scale measures that would move economic interaction to a qualitatively new level. Subsequent sessions of the Council for Mutual Economic Assistance resolved to gradually convert the



collaboration mechanism to an economic footing, to form a unified socialist market, to modernize work on the coordination of plans and on the implementation of international programs.

However, the scale of reforms planned in the CEMA and indeed all future efforts to implement them cannot as yet guarantee the irreversibility of the restructuring of the CEMA and its ability to halt negative trends. All CEMA countries have been disenchanted in one way or another with the socialist integration process. At the same time, there is also a general understanding of the need for change. But it does not seem to us that there is as yet a common approach to the reform of this organization.

Many are concerned about the fact that a scientific conceptual base for restructuring the CEMA has not been developed. The collective Convention on the International Division of Labor, which was drafted over a period of several years and which was supposed to perform this function, did not and could not justify the hopes that were placed in it because it affected only part of the large and complex system of relations within the community.

It primarily addresses general tasks relating to the intensification of production, to the need to restructure the national economy and reciprocal trade of CEMA countries, and to raising the technical level and competitiveness of their products in the world market. But the concept does not answer the main question: how to reform collaboration and the CEMA itself so that they might truly effectively promote the resolution of these strategically important problems? What should be the nature of the socialist integration mechanism under the new conditions when the majority of CEMA countries have embarked on major economic reforms?

The idea of creating a unified socialist market through the gradual formation of a free trade zone, a customs union, and a currency union is in itself unquestionably constructive. On the whole, it was received with interest by CEMA countries. However the absence of specific parameters, principles, and conditions; the lack of the sequence of formation of such a market; vagueness regarding its connection with other integrative mechanisms and regarding relations with the European Community's future joint market generate the most contradictory ideas concerning the practicability of creating a unified socialist market and the feasibility of specific countries participating in it.

In particular, prominent Hungarian economist Kalman Pechi advanced the very sound argument in the pages of SOVETSKAYA ROSSIYA that we still have quite a ways to go before we create such a market and that we should first make a maximum effort to develop the internal markets of CEMA nations. At the same time, he proposes the widespread development of microintegration processes on a market basis (direct relations, joint

enterprises, etc.). Is there not a contradiction here? After all, the latter means nothing other than the gradual formation of a unified socialist market.

There is no contradiction. The author believes that microintegration should form exclusively on the basis of economic interest "without any political hues," i. e., outside any institutional framework. But it is our deep conviction that such a path is thorny and long. Would it not be better if interested countries—simultaneously with the development of microintegration—would agree even now on measures facilitating this process, so as to gradually and cautiously eliminate artificial obstacles (the inconvertibility of currency, high duties, nontariff barriers, etc.) from this path. But this would mean undertaking the formation of a unified market—naturally with the understanding that more than one five-year plan would be required for its full realization.

In principle, the unified market cannot function without the comparison and in the future coordination of the tax, credit, price, and foreign trade policy of CEMA countries, without the development of a common customs tariff, without common ecological and other norms and standards, without the convergence of national legislation in the area of foreign investments, joint enterprises, etc. Otherwise, we will inevitably encounter the growth of spontaneous phenomena, the transfusion of inflation, the transfer of crisis and precrisis processes from one CEMA country to another. As evidenced by the experience of the European Community, the creation of the joint market even under capitalist conditions is accompanied by its joint regulation, by the coordination of the economic policy of member nations.

Therefore, in addition to the development of commodity-monetary instruments and direct relations between the enterprises of member nations, the formation of the unified market within the framework of the CEMA will inevitably also require the radical restructuring of the upper, international level of relations. It is now most highly bureaucratized and does not correspond to the task of converting collaboration to an economic basis.

There is special concern over the inconsistent, contradictory position of the Council on the restructuring of work on the coordination of plans. This restructuring presently essentially boils down to the establishing coordination at three levels: the central level, the branch level, and the level of associations and enterprises. But this does not agree with the essence of the economic reforms carried out in CEMA countries or with changes in the functions of centralized planning.

The fact of the matter is that with the transition to economic methods of collaboration, there is gradually less need to coordinate plans associated with the coordination of reciprocal deliveries. An ever larger part of such products will be freely received through foreign trade channels. Moreover, Poland, for example, is



making the transition from mandatory planning to indicative planning. The branch principle of planning has practically exhausted itself in such countries as the Hungarian People's Republic, the Polish People's Republic, and the People's Republic of Bulgaria. But as regards the coordination of plans at the enterprise level, the discussion should obviously be about specific instances (for example, in cooperation, in the creation of joint production, etc.), but not about a system as such since there are hundreds of thousands of such enterprises in CEMA countries.

Further. Having set the goal of "reviving" and "renewing" international programs that are in fact inactive, CEMA bodies recommend correcting matters through having countries name head ministries, departments, and associations responsible for the performance of joint projects on a mandatory basis, i. e., one again through the use of peremptory administrative methods. This contradicts not only the actual task of converting CEMA countries to economic methods of collaboration, but the character of restructuring of their internal economic mechanisms as well. The international programs that CEMA countries urgently need may once again become bogged down in the bureaucratic system of endless coordination.

The solution of the problem lies in using cost accounting relations between enterprises of member nations and in the creation of material incentives (and responsibility) for the fulfillment of joint programs. Many economists believe that not plans but state orders of the respective countries should be the subject of coordination to this end. Their distribution must be placed on a competitive basis; CEMA countries must reciprocally open markets to state orders for enterprises and firm-performers; where feasible it would seem that Western firms should also be invited to perform the role of the latter.

On the whole, however, as the last two sessions of the Council have shown, the restructuring of the CEMA has been greatly delayed. To date, no detailed, substantiated program of radical reforms has been proposed. The matter is limited to half-measures that do not essentially alter the traditional principles of the CEMA and that practically deprive it of reliable prospects. The creation of a fundamentally new collaboration mechanism is naturally held up by the transitional state of perestroika in CEMA countries, by the lack of development of wholesale trade and the credit system in many of them, by the preservation of the obsolete structure of prices, and the inconvertibility of currencies. But the inertia of political thinking, the dedication of many representatives of the state bureaucracy to stable schemas of interaction within the framework of CEMA, and fear of the fresh wind of change are also hindrances.

### III

Anticipating a protracted reform, CEMA countries have recently proposed different alternative plans for the future organization of collaboration in Eastern Europe. Some place a great deal of hope in collaboration with the EC and the association of individual CEMA countries with it. The full-fledged membership of some of them in this organization in the future is not excluded. Western political scientists have also suggested the idea of an increasingly integrated Europe without U.S. intervention in its affairs, but with the participation of the Soviet Union. However, such constructions are unrealistic at the very least.

The so-called "increasing differentiation" of socialist countries—a concept that is popular within the CEMA—is noteworthy. It holds, in particular, that development is in the direction of the ever greater intensification of national features of political systems and economic mechanisms of our countries. And this in turn will lead to the regrouping of relations and interests in the community itself, in their relations with other countries.

Despite the common social choice by CEMA countries, we cannot fail to see certain differences. This applies to the correlation of forms of ownership (state, cooperative, joint-stock, individual, private), centralization and decentralization, plan and market, party-political structure, etc. On the basis of these differences, the attempt is made (not without borrowings from Western political scientists) to classify the development of socioeconomic systems in European CEMA countries, for example, as follows: the HPR and PPR are headed toward "market socialism"; the USSR, PRB, and CSSR are oriented toward "plan-market socialism"; and the GDR and Romania subscribe to the "centrally planned model of socialism." Unfortunately, Marxist science's failure to develop the criteria of socialism under the new conditions and occasionally dogmatic views on this key theoretical question hamper the active formation of a coherent scientific concept of the avenues of socialist development in countries in the [socialist] community.

Nevertheless, the specifics of the concrete makeup of socialism in various countries cannot in itself be an obstacle to their close interaction and collaboration. As we shall subsequently see, other criteria are no less important here. Incidentally, it is useful to look at the composition of the European Community where countries of highly developed and moderately developed capitalism with many shades and specifics in each of them are represented.

On the whole, the state of relations between CEMA countries is reaching a point where the question of the community's fate, its future will definitely be raised. It becomes obvious that if work to modernize the CEMA is conducted in the future within the same framework, at the same pace, without a clear perspective, centrifugal trends may get out of control, may become unmanageable. The present half-way reform of the CEMA does not

please those who have gone further in perestroika processes in their countries nor does it please those who wish to perpetuate the rigid, centralized system.

In this regard, the question arises as to the community's choice of a long-range strategy and especially the definition of its main reference points. This task is by no means easy and requires the efforts of more than one scientific collective. We would like to share our ideas on this point. It appears to us that the discussion could center on three basic variants.

**Variant one.** Considering disagreements in the community regarding the character of restructuring of collaboration and the CEMA as well as the lack of preparedness of the economy of a number of countries for market relations, to preserve the line of partial reforms of the CEMA without essentially altering its makeup. Such a course can only temporarily alleviate but cannot resolve the problem of restructuring the CEMA and of overcoming stagnation in its activity. At the same time, it is obviously necessary to reckon with the possibility of the purely formal membership of certain companies in the CEMA and with attempts to create new organizations of various East European countries without the participation of the Soviet Union.

Such a course presupposes the dramatic intensification of our economic ties with capitalist, especially West European, countries with due regard to not only current but also long-term interests. This unquestionably refers to the widespread borrowing of foreign capital in all manner of forms (the creation of not only joint enterprises and banks but also affiliates of foreign TNC's, large concerns and trusts with foreign participation, the formation of free zones, etc.).

On an economic plane, the all-round development of relations with the West will win us time, will give us the possibility for broad maneuvering in the realization of perestroika tasks, in the solution of the most important social problems, in the training and retraining of management cadres, etc. Politically, it will promote security and confidence.

As regards the community proper, the serious minuses in the proposed variant are obvious. If our countries postpone the formation of the unified CEMA market until better times, if they allow events to take their own course, they will inevitably suffer major economic losses from making too little use of the advantages of regional socialist division of labor. At the same time, the expansion of Western imports on the basis of credit is approaching a dangerous point, and it will take time for the substantial expansion of our exports to the capitalist market. The lack of coordinated policy of CEMA countries concerning the future market is also fraught with complications in trade policy. This is attested to by the chain reaction caused by the recent introduction of customs barriers by CEMA countries.

At the same time that each CEMA country will operate alone in the world market, West European countries will increasingly oppose us as an organized collective force in the person of the European Community. We will not be able to obtain from EC countries the reciprocal concessions that we could have in the event of the radical restructuring of the CEMA and its transformation into a truly effective organization.

What is more, it is entirely obvious that the strengthening of European security and movement in the direction of the "common European home" will take more than one decade and that success in this area will be determined not only by the results of perestroika in our country and our foreign policy but also by the state of affairs in the community as a whole.

**Variant two.** Without weakening the efforts to develop cooperation with the West, to assign a qualitatively new level to it, to simultaneously do everything possible to strengthen the community and to prevent the development of centrifugal tendencies. This will require new initiatives calculated for the extended future.

At the same time, in our view we should first of all renounce the simplistic view of socialist integration. It would hardly be possible, let us say, to integrate in the present stage countries at various levels of economic development, such as the European CEMA countries on the one hand and the developing countries such as Mongolia, Cuba, and Vietnam currently are on the other. The discussion is focused more on collaboration, collective aid and assistance in the economic, scientific-technical and social development of the latter by the economically more mature partners.

After declaring that all CEMA countries had entered the integration stage in the early '70's, we not only artificially narrowed the very concept of this multilevel process that embraces economics and politics, but also tried to move forward too fast before we had sufficient objective prerequisites for doing so. The principal subjects of integration—enterprises and associations of CEMA countries—remained outside the integration process, while their internal markets also remained separated by high barriers. The very idea of socialist integration was thus compromised to a considerable degree.

In the existing situation, if we do not want to lose such an important lever of acceleration as regional integration, the following formulation of the question is in our estimate legitimate. While preserving the CEMA as broad organization, at the same time creating a narrower, regional integrated association (council, community) made up of European socialist countries desiring to participate in it.

Why specifically European? This would seem to be dictated by an aggregate of factors: the growing need of European socialist countries for new interaction mechanisms stemming from the character of the economic

reforms in most of these countries; by the existence of such objective prerequisites for integration as the similarity of structures in the national economy, levels of economic development, etc.; by the specifics of the common interests of European socialist countries that must operate in a situation of rapidly developing integration in Western Europe on the one hand and under the conditions of growing responsibility for security and the development of the common European process on the other.

The principal task of such an association would be not only the creation of a free trade zone, customs and currency unions, and then a unified market, but also the convergence of the economic policy (internal and external) of member nations; the elaboration of coordinated actions relating to the most important aspects of their relations with one another that are of mutual interest as well as with third countries and international organizations.

Since the transition from a narrow departmental mechanism of collaboration to its new model entails major difficulties, it seems to us that two stages should be contemplated: first, the normalization of reciprocal collaboration, the development of direct relations between enterprises and other forms of microintegration, and the formation of a socialist market (approximately 3-5 years); second, the broad development of integration processes based on intensive economic reforms (1995-2000).

In the first stage, the countries should take measures to eliminate the most acute deformations in reciprocal trade and in payments; to carry out coordinated actions facilitating the formation of a joint market; the development of competition and new forms of cooperation. Among the possible measures are: the unification of customs legislation; the gradual reciprocal reduction of duties and individual nontariff barriers (as the market becomes saturated); the (initially partial) conversion of national currencies in transactions between enterprises; the opening of wholesale trade and state order markets for enterprises belonging to partner nations; the further reduction of contingent deliveries; the elimination of restrictions on reciprocal investments, etc.

In 10-12 years, it would on the whole be possible to remove the basic obstacles to reciprocal exchange of goods, investments, services, and labor resources, and to gradually make the transition to the joint regulation of the European socialist market (in the area of prices, credit, exchange rates, etc.). Joint actions will play a more important part especially in such spheres as information and forecasting, the stimulation of the scientific-technical progress and qualitative changes in the regional division of labor. In this regard, it will be necessary to totally alter the mechanism of integration programs in the area of science and technology, the infrastructure, the ecology, and the social sphere. Programs should be based not so much on the coordination

of plans as on strict economic accountability and collective financial oversight over their implementation with the use not only of national funds but joint funds as well.

One of the main tasks of the unification is the close interaction of the lower and upper levels of integration (the micro- and macrolevels), the combination of cost-accounting commodity-monetary relations between enterprises and international regulation and joint activity of countries in the acceleration of economic and social development.

The effective modernization of collaboration and the transition to real integration can be secured only if they are closely coordinated with the rates and character of the economic reforms and only if their specifics are fully considered in the various countries. This presupposes the organization of broad reciprocal exchange of information between countries on the nature and course of the reforms, the joint search for the most effective avenues of their realization, and the coordination, where feasible, of aspects of the reforms that are connected with management as well as with the realization of foreign economic relations in each of the countries and that hence directly affect the interests of reciprocal collaboration. It is important that the coordination of economic policy in its new content promote the all-round development rather than suppression of internal economic reforms.

It seems to us that the entry of European socialist countries into a new association should be entirely voluntary. Countries that are not prepared to join should be permitted to do so in the future (as associates or full members) and should be given a period of transition to adapt to the conditions of the association. The country will be able to participate in it if it guarantees the fulfillment of all jointly adopted obligations.

The creation of a viable association of European socialist countries will depend in large measure on the degree to which we are able to abandon traditional approaches to certain categories. This concerns, for example, the transnationalization of production and exchange as one of the effective forms of microintegration. For all its specific features, this form of international relations is becoming universal and characteristic of both the developed as well as the developing countries. Of late, it has been more and more frequently resorted to by socialist countries: the People's Republic of China, Yugoslavia, Hungary. There are already examples of Soviet transnational enterprises that have their own affiliates in foreign countries. The broad use of transnational socialist companies side by side with other promising forms of relations could give a new quality to the interaction of our countries and could accelerate the transition to the creation of the joint socialist market.

It will be necessary to take a new look at the correlation of such categories as national sovereignty and supranationality. For a long time, we treated supranationality as



a product of imperialism and its attack on national independence. In reality, countries transfer to a given international organization only a certain part of their powers in those areas where they hope to obtain an additional economic effect on the basis of this principle while retaining the basic prerogatives of power in their hands. What is more, participation in any international organization in itself means that member nations voluntarily delegate certain powers. There are a number of international organizations in the world with elements of supranationality in which the Soviet Union and other CEMA countries participate.

The use of supranational elements greatly accelerates the procedure for coordinating interests and decision-making by member nations through the introduction of majority rule in voting, raises the guarantee of fulfillment of reciprocal obligations, reduces the degree of risk entailed in entering the world market, etc. In other words, there are more favorable conditions for regional economic security. The experience of the European Community convincingly confirms this point. What is more, contrary to the stable view in the Soviet literature (which, incidentally, the author also shared at a time) that only the most powerful countries, especially the Federal Republic of Germany, benefit from supranationality in the EC, development has followed a different road. It is specifically the medium-size and small countries in the EC that are connected to the greatest degree with the external market (Italy, Belgium, the Netherlands, and others) that express the greatest readiness to expand the supranational powers of the Community.

A new association could use supranational elements—if only in individual areas—in individual, primarily tactical questions relating to collaboration. In such a case, decision making could be based on a simple majority of the votes. The international basis of relations—the principles of consensus that have widely proven themselves in world practice—would be preserved.

In the light of what has been said it becomes obvious that the creation of an association of European socialist countries of a truly integrated nature will require a fundamentally new political and legal framework that is distinct from the framework that exists in the CEMA. In our view, the international status of the future association should be raised. It should be headed by a Council made up not of heads of governments but the highest state leaders of member nations. It would be responsible for coordinating positions on the most important aspects of integration, for the exchange of experience, for converging approaches in the area of perestroika, economic reforms, and the regulation of foreign economic relations.

There must also be a new approach to the creation of the association's permanent executive body. It can take the form of a council of ministers of member nations consisting of heads of governments or ministers depending on the character of the questions that are discussed.

Executive and oversight functions and the function of regulating relations with other states and organizations should be assigned to an independent international body. It should be vested with the right of broad initiative in all aspects of activity. Such a structure, side by side with the mandatory nature of the decisions that are made and certain other supranational features, could make the association's bodies quite flexible and effective.

The transition to the new model of collaboration and especially the use of certain supranational elements could be justified only with the broadest democratization of the decision-making process and of the activity of the future integrated association. Naturally the specific decision-making procedures will require thorough, serious discussion. The experience of the EC which hawks the European Parliament with oversight functions might prove useful in the given instance. The parliament, which is elected by direct vote, regularly examines questions that are associated with the activity of the Community proper and with international relations in general. Also of interest are such actions as regular hearings in the national parliaments of members of governments responsible for the nation's participation in the Community; the creation of "European unions" and "associations" for the protection of interests in the Community, etc., by the leading parties, trade unions, and other organizations of these countries. Unfortunately such a practice does not as yet exist in the CEMA.

While not by any means copying the EC, we could begin with the creation of a European forum (congress, commission) made up of representatives of national parliaments of community countries. In the future, as the prerequisites mature, it will be possible to make the transition to direct elections of "European deputies." Such a forum could also become a collective tribune for the exchange of ideas on the building of the "common European home."

The formation of an association of European socialist countries within the framework of CEMA has its pluses and minuses. This variant does not entail the creation of yet another intergovernmental organization and corresponds to stable views of the role of the CEMA as the only organization of socialist countries.

At the same time, the attempt to inscribe an interstate formation that is fundamentally new with respect to priorities, the nature of its activity, its mechanism, and legal status in the existing structure of the CEMA entails major difficulties. In such a case, the CEMA would become an unwieldy, unmanageable system with all the costs that inhere in such a hierarchical structure.

**Variant three.** To keep the CEMA in its present composition. To create a new integrated association of European Socialist states as an independent regional organization with a small regulatory apparatus, conveying to it all the functions and powers, the structure, and the mechanism that were just discussed.



Such a variant strikes us as being most responsive to the objective needs of integration. It would not entail the cardinal reorganization of the CEMA itself or the establishment of strict ties with the new association. There would be more room for the formation of such an integrative mechanism that would be most responsive to the interests of future European participants.

Opportunities would open up for closer interaction, for the collaboration of European socialist countries in economics and foreign policy. Today both of these processes are to a considerable degree separate. The first, as is known, is within the framework of the CEMA even though it includes countries from different regions. The second is within the framework of the Warsaw Treaty Organization in which European countries are the sole participants. It is obviously expedient, especially in the light of large-scale Soviet peace initiatives, to think about concentrating the coordination of the foreign policy positions of European socialist countries on non-military aspects of collaboration not in the WTO, but in a new association that would effect collaboration in the area of foreign policy in addition to economic integration (as is the case, incidentally, in the European Community).

It should be added to this that contacts, exchanges, and joint actions by citizens of European CEMA countries, their unions and organizations in the area of culture and art, history and law, environmental protection, education, health, sports, etc., are for the most part developing on a bilateral basis. There is no multilateral mechanism whatsoever for their regulation at the level of the community (unlike the EC where this process has undergone considerable development). The new association could also take upon itself such a task.

On the whole, this variant, in addition to its obvious economic and political advantages, would also create a considerably broader field for interfacing interests, for the convergence of positions, for the search for compromise. The restructuring of the structure of multilateral relations in the socialist part of Europe could also produce positive international resonance as one more evidence of our consistent line of building a "common European home." This would also open up new prospects for the collaboration of the future integrated association of European socialist countries with the EC as a truly equal partner.

Of course this variant is connected with considerable difficulties. They are connected first and foremost with the necessity of rejecting obsolete stereotypes and ideas concerning the stability of the existing structure of relations in the socialist part of Europe, concerning the CEMA as the only possible organization of an integrated nature.

In the event a new association is created, the CEMA will for the most part retain its initial status, executive bodies, and mechanism. At the same time, the goals and

functions of the Council will have to be defined more precisely. In such a case, its efforts should obviously be concentrated on providing member nations with economic and statistical information; on the organization of collective support for the economic and social development for developing CEMA member nations; on the coordination of positions and the development of common approaches of socialist countries to current problems in international relations as well as problems associated with their participation in GATT, the IMF, and other organizations. In this capacity, the CEMA may be of interest to China and the Korean People's Democratic Republic. The experience of such an organization of Western countries as the OECD would also be useful here.

The question of the reaction of CEMA countries to possible initiatives of this type remains central. The possibility is not excluded that the idea of an association of European socialist countries will not find the support of individual countries. It is well known that some politicians do not even accept the term "socialist integration."

But the thing that concerns our friends most is the state of the Soviet economy with its growing deficit and imbalance as well as the absence of noticeable progress in the economic reform. Under these conditions, even the partial opening of fraternal countries' internal markets to the USSR threatens the erosion of their commodity mass and increased scarcity. Therefore our friends' support of the idea of the new integrated association largely depends on how energetically we restructure our economy and whether we will succeed in formulating a precise program and implementing it in stages, bearing in mind first of all the creation of a developed Soviet market.

At the same time, in our view it would be wrong to underestimate the specifics of the situation existing in CEMA countries that compel them to actively search for variants of new organization of external relations within the framework of Europe. The new integration association may prove to be the alternative that will help its participants to extricate their economies from a difficult situation by drawing not only on the gradually created, unified market (and in the future, consequently, on a large Soviet market), but also on the collective experience of perestroika, which the majority of these countries are interested in developing and supporting. It would seem that regardless of the number of countries desiring to participate in the new association (initially, they may number three or four). In time, they may be joined by others.

Broad glasnost in community affairs acquires special significance in this regard. This area of international relations with all its complexities and contradictions is still the least open to the public and is probably the most "smoothed over" owing to the efforts of the press and economic science. Is this not one of the main reasons for

the prolonged stagnation in the CEMA? It appears that only a candid and free exchange of opinions with our friends about the reasons behind the existing situation in the CEMA, about ways of overcoming difficulties, about how we wish to see our community, will help us to find effective answers and solutions. "There must be a breakthrough in ideas," M. S. Gorbachev emphasized at a meeting with representatives of the "Trilateral Commission." "And we must not be afraid to pose difficult questions dictated by life itself to ourselves and others."

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**Swedish Military-Industrial Complex Described**  
18160009e Moscow MIROVAYA EKONOMIKA I  
MEZHDUNARODNYE OTNOSHENIYA in Russian  
No 4, Apr 89 pp 121-127

[Article by Sergey Vasilyevich Morgachev, department head, ME I MO: "Military and Military-Industrial Circles in Sweden"]

[Text] Sweden is a peace-loving country that stands outside of military and political blocs, that is making considerable efforts to strengthen the trend toward collaboration, toward more trust, and toward the rejection of the policy of force in international relations. This aspect of Sweden's security policy has been the subject of repeated commentary in the Soviet press. Less attention has been devoted to another, just as deeply rooted component of the "freedom from alliances" policy in Swedish political thought and social consciousness—its reliance on its own, relatively significant defensive military potential. The activity of certain sociopolitical forces that can be somewhat tentatively called "military, military-industrial and kindred circles" is continuously linked to this traditional idea. This is an informal political community based on similar military and corporate interests as well as the values of the military establishment and influential groups in business, party-political circles and the state apparatus. The activity of this community is based primarily on informal contacts and is oriented toward the development of the military industry and the armed forces and toward the creation of the corresponding military atmosphere.

From the point of view of political economy, the conditions of a small country not only do not hamper but to the contrary favor the formation of such communities because of the higher concentration of production and capital that is characteristic of these countries. At the same time, other prerequisites necessary for their formation are usually absent in this group of countries since by no means all of them have relatively significant armed forces and almost none of them has a developed national military industry. But there are no rules without exceptions; Sweden is one of them.

I

The level of Sweden's self-supply with weapons and combat equipment, understood conditionally here as the share of national companies in direct state purchases of military materials, is very high: together with the corresponding indicators for France, Great Britain, and the Federal Republic of Germany, it ranges between 80 and 90 percent. For the USA, the share is approximately 99 percent; Italy—70-80; Spain—60-70; Israel, the Netherlands, Switzerland, Finland—40-60; Canada and Denmark—20-30 percent.<sup>1</sup> Naturally, in making such a comparison, it is necessary to remember differences in the level of pretensions in the military area and the real scale of military organizational development). The major Swedish suppliers of military products—Bofors (antitank missiles, antiaircraft missiles, artillery guns, explosives, fire control and communications equipment, optical systems), Eriksson Radio Systems (communications and tracking equipment, computers and other electronic equipment), FFV (antitank weapons, mines, torpedoes, explosives, small arms, servicing and repairing aircraft and electronic equipment), Heggland ok Soner (armored equipment, all-terrain vehicles), SAAB-Skania (combat aircraft, various types of missiles, fire control equipment), Volvo Flugmotor (combat aircraft engines, missiles), Philips Electronic Industry (various kinds of electronic equipment), Karlskronavarvet (guided missile boats and patrol craft, submarines and their servicing), CATT Electronics (electronic equipment), Kokums (submarines).

Military products account for 1.0-1.5 percent of Sweden's GNP. By international measurements, this is considerable. But research cannot be based on such aggregated quantitative indicators. The latter provide no more than primary information on the positions of the military sector of industry. The entire complex of economic and political parameters must be examined: the degree of concentration (including branch and territorial) of military production, the positions of national capital, the economic and political role of the head concerns within the framework of which arms suppliers operate, for example, can be of enormous importance.

Four out of five of Sweden's largest companies, specifically, Volvo, SAAB Skania, L. M. Eriksson, and ASEA (Heggland ok Soner is part of ASEA), have interests in the military industry. All of them are well-known transnational corporations based in Sweden proper. Operating with the category "company operating at least partly in the sphere of military business," we find that the output of such companies (including overseas production) accounts for 25 percent of Sweden's GNP and 40 percent of the output of the nation's manufacturing industry.<sup>2</sup> As regards concentration in the military industry proper, the four companies referred to above, together with Bofors, produce about 60 percent of its output. But if we base our count on the five largest producers of military products, which will mean replacing Volvo in this list with the state FFV company,

the concentration of production will be approximately 75 percent. For the sake of comparison: in the USA, the 10 largest military suppliers concentrate approximately 35 percent of direct state orders; in Great Britain—about 70 percent; in the Federal Republic of Germany, 10 of the largest military producers produce about 40 percent of these products; in Italy, the top 15 producers produce about 50 percent.

Following this logic further to the level of industrial groups, it is easy to see that Sweden's military industry is divided primarily between the nation's largest group—the Wallenberg group (which incorporates, in particular, the L. M. Eriksson company, ASEA, and SAAB Skania), Volvo—the second largest group, and the relatively small but aggressive and dynamic E. Penser (which includes Bofors). In other words, the most influential part of national monopoly capital is the economic basis of military policy.

Within the framework of very contradictory and occasionally strained relations between centers of monopoly capital, there is a place for large-scale collaboration in the military industry. The reference is above all to Industriegruppen YAS, which was created by SAAB Skania, L. M. Eriksson, Volvo, and the FFV—a state company for the joint development and production of the new Gripen YAS-39 fighter plane; SAAB Bofors Missile, which was formed for the joint production of missile weapons; and K. B. Utveckling, which was created by the firms Heglund or Soner and Bofors for the development of new models of armored equipment. Thus, within the military industrial sphere, consolidation processes are clearly visible and a definite organizational structure is forming. This creates prerequisites for the formulation of unified monopoly capital policy on the development of the military industry and for the further increase in its political weight.

It is known that the Wallenbergs' SAAB Skania made no little effort in the '70's to push plans for the Wigen fighter plane through state bodies and the parliament.<sup>3</sup> As V. Agrell, well-known researcher, writes: "it was formally a question of modernizing aircraft in air force combat units. In reality, it was the question of the life or death of a design department in the aviation division of SAAB."<sup>4</sup>

It is entirely probable similar circumstances will come to light with regard to the parliament's passage of the Gripen plane, the flight testing of which has already begun. It is known that Peter Wallenberg, the present head of the Wallenberg clan, played an active intermediary role in the regulation of the conflict between Sweden and the USA over a number of Swedish companies' nonfulfillment of American demands on exports incorporating American-produced components—a conflict that threatened in particular to undermine the projected participation of American firms in the development of Gripen. In 1981-1985, P. Wallenberg, accompanied by ASEA board chairman P. Barnevik,

repeatedly flew to Washington for talks with Commerce Secretary M. Boldridge, among others. In government circles back home, he stubbornly pursued the idea of the need to make concessions to American partners.<sup>5</sup> In 1982, Wallenberg arranged a meeting at his villa between R. Pearle, assistant U. S. secretary of defense, and the heads of a number of Swedish companies. A government ordinance controlling exports of products containing foreign-manufactured elements was finally adopted in 1986.

Arms producers try to influence state policy on exporting military materials (forbidden by Swedish legislation to countries engaged in armed conflict with another country, that are drawn into international conflict that can lead to military actions, and to countries where there is internal unrest involving the use of arms, and to countries where arms might be used to suppress human rights).

In the words of M. Ardbu, former administrative director of Bofors, under a mutual understanding reached in October 1978 between the concern and B. Rozenius, the erstwhile chief of the state inspectorate for military materials (KMI), the latter promised to close his eyes to the concern's violations of the rules governing exports of arms. According to former Bofors directors, the KMI was informed of violations of these rules in at least 15 cases in 1979-1986. Naturally the range of persons who were in on the details of Bofors export deals was very narrow: after all, as K. Vinberg, another former administrative director of the concern stated in 1981, "changes in the parliament's moods and the sensation in the mass media can do more harm to Bofors activity than the negative consequences of a direct trade and production nature."<sup>6</sup> Incidentally, if not the concern, then Vinberg himself was indeed harmed by the "sensation in the mass media": in 1985, he was compelled to resign his post as chairman of the board of the Union of Swedish Employers (SAF).

After a time of relative passivity in the '70's, Swedish monopoly capital has adopted a policy of more active and open participation in political life in recent years. This process also extends to military-industrial circles.

A SAF congress in 1984 emphasized the need for members of this organization to be politically active: the same demand was contained in a special message prepared by the SAF administrative director and sent to the members. "We must influence those who write the laws," S. Eskilsson, the chief of the Union's information department, declared, "so that these laws would please businessmen."<sup>7</sup> Marcus Wallenberg, who enjoyed great authority in Sweden's industrial and political circles made the same appeal in 1980 shortly before his death. (We note, incidentally, that S. Sunnergren, commander-in-chief of Sweden's armed forces, was one of M. Wallenberg's closest personal friends). "If you do not start taking an interest in politics, the country will go to hell," Wallenberg told Swedish businessmen in one of his last speeches that became a kind of political testament. "Only by directly participating in the political game can







The officer corps traditionally adheres to right-wing political views and is oriented toward the most right-wing (and influential) parliamentary bourgeois parties in Sweden: the Moderate Coalition (UKP). According to the data (to be sure dating back to the '60's) of B. Abrahamsson, well-known researcher of the Swedish military community, about 80 percent of the officers vote for the UKP; among the higher ranks, starting with major, this share is 95 percent or more.<sup>19</sup> These figures have hardly undergone significant change to date. This is evidenced in particular by public statements of high-ranking military officers frequently in the spirit of the Cold War. In 1987, such statements served as material for a special memorandum by K. Brudin, deputy chief, Political Department, Swedish Ministry of Foreign Affairs, in which he characterized statements by General B. Leander and a number of other military officers as being detrimental to confidence in the Swedish policy of neutrality.

When we reflect on the dominant foreign political stereotypes in the military leadership, we can hardly ignore certain memoir-type materials, for example, the reminiscences of former IB associate K. Isakson. He writes: "The main external enemy (in the central intelligence apparatus—S. M.) is naturally considered to be the Soviet Union. Communists and other leftists are just as automatically classified as internal enemies. The Cold War continues here in full swing. Work is carried out under the slogan 'for national security.' Everything that does not conform to the world view of the chief and ultimately to the world view of Sven Anderson (the erstwhile minister of defense and a Social Democrat.—S. M. and the government" is construed as a threat to national security."<sup>20</sup>

Here is a fragment from an article by O. Lofgren, who worked for the Defense Headquarters until September 1983. "The common view among the military," he notes, "is that the Russians are uncouth, obtuse thugs whose philosophy is alien to us, who only understand the language of force. To engage in dialogue with them is a waste of time. The pro-NATO sympathies of the military make a realistic political analysis impossible. At the same time, these people and this world view determine to a significant degree the picture in the area of national security that the commander-in-chief uses as a basis for his recommendations to the parliament and the government."<sup>21</sup>

### III

Sweden's Moderate Coalition Party traditionally makes significantly higher demands on military organizational development than other parties. It was specifically in this capacity that it acted during the period in 1987 when the government was deciding military spending for the next five year period. (It is another matter that a less ambitious bill based on the agreement between the Social Democratic and People's parties was adopted). The UKP launched an intensive campaign to propagandize

its views on military policy, endlessly expounding different versions of its idea that the Soviet Union is playing a complex military-political game vis-a-vis Sweden, the principal answer to which is the strengthening of the national armed forces. S. Eriksson uses in this regard the concept "conservative-military complex." "A formation that can be defined as a conservative-military complex," he notes, "dominates the discussion that has developed in the mass media on the threshold of the decisions that will be made on defense for a five-year period. The public is systematically and persistently brainwashed. The commander-in-chief and K. Bildt, chairman of the UKP—S. M. set the tone."<sup>22</sup>

The party's positions on military issues cannot fail to be influenced by its close relationship with large-scale industry, subsidies for which incidentally comprise an important part of its incomes. But it would be a gross oversimplification to reduce the issue to the party's representation of the economic interests of monopolistic circles. Swedish conservatism, like any other political current, is a type of thinking, a system of views that exists to a considerable degree independently of any kind of material interests and that has certain cultural-historical and psychological roots. The foreign political credo of the "moderates," as members of the UKP are called in Sweden, is the unconditional rejection of the idea that another social (i.e., socialist) system has any merits whatsoever and is the relatively and selective interest in the search for areas of mutual understanding and collaboration with countries belonging to that system. It is the idealization of the Western, especially the American way of life and conformism vis-a-vis U. S. foreign policy. Finally, it is an entirely different standard for evaluating the Soviet Union's foreign policy and deep mistrust of this policy.

It must be admitted that the reproduction of ideas characteristic of conservative political thinking, not without our participation. If K. Bildt wrote about the Soviet Union in 1983 that "there gradually formed the picture of an empire that depends to an ever greater degree on military means for the affirmation of its positions and that is gripped with deeply rooted suspicion toward the surrounding world,"<sup>23</sup> this corresponded to reality to a considerable degree. If 4 years later, he comments positively on "perestroika" and observes that in the event of its failure, the Soviet Union "will move increasingly in the direction of decline and supermilitarization," it is also difficult to disagree with this. But when we come to the assertion that Sweden must be mindful of the Soviet position based on the striving...to change Sweden's foreign policy and its security policy in its favor and to use its territory for military preparations,"<sup>24</sup> the author finds himself in the grip of false stereotypes.

Finally, a word should also be said about the place occupied in the military-industrial business mechanism by certain groups in the state apparatus. The agreement concluded between Bofors and KMI chief B. Rozenius

was already mentioned above. We note that if we only have the word of the administrative director of Bofors (a person interested in sharing responsibility) concerning this agreement, the participation of K. Algernun—another former KMI chief—in illegal export deals was proven by a government investigation. Found among the papers of K. Algernun, who was run over by a Stockholm subway train at the height of the scandal surrounding the "Bofors affair," were notes showing that he at least knew about shipments of anti-aircraft guns to Oman. (According to the data of B. Hagelin, well-known Swedish researcher, these anti-aircraft guns are also part of the arsenal of the Republic of South Africa, Israel, Jordan, Saudi Arabia, the United Arab Emirate, Libya, Chile, Egypt, Pakistan, and certain other countries where they could only have been delivered illegally<sup>25</sup>). We also recall that FFV—one of the major suppliers of military products—belongs to the state and that it incidentally is also mixed up in illegal exports of weapons.

It would also be possible to point to the closest collaboration between the military command and the ministry of defense. Incidentally, such interaction is natural. The role of certain groups in the ministry of foreign affairs is of greater interest.

I. Bratt, a former Bofors engineer, declared in the press that a group of high officials in the ministry of foreign affairs had abetted illegal arms exports.<sup>26</sup> This is entirely possible if one considers that the interaction between the business elite (and hence concerns engaged in the military business) and the foreign policy department differs primarily in intensity. An important role in this interaction is played by the Export Council which, in the words of Swedish researcher O. Svenning, functions "like an integral part of the ministry of foreign affairs."<sup>27</sup> The Wallenberg clan traditionally occupies strong positions in the foreign political department. But these are only the most visible points of contact between the business world and the apparatus of the ministry of foreign affairs. Their intertwining is deeper.

No other Swedish ministry or department can boast of such broad representation of the highest strata in society, including the financial and industrial community, as the ministry of foreign affairs. On the other hand, many responsible officials of the ministry of foreign affairs go to work for large companies usually upon reaching retirement age but sometimes when they are at the peak of their career. They work as consultants, conduct negotiations with foreign firms, and occasionally also occupy executive positions.

Thus, in 1982, the following worked for Volvo as advisers: S. Ostrem (former Swedish representative to the UN; former general secretary of the Ministry of Foreign Affairs); E. Ruding (formerly ambassador to Moscow, Helsinki); T. Hagen (last post: ambassador to Copenhagen); the L. M. Eriksson company employed M. Lemmel, the former ambassador to Switzerland. This list could be continued. The ministry of foreign affairs

attaches considerable importance to maintaining close contacts with industry. "It would unquestionably be a good thing if young ministry of foreign affairs officials could work in the firms," said, for example, S. Brigstad, who is responsible for ministry's personnel planning. "Several people are presently receiving practical training in the Export Union and the Wholesalers Union. This will create contacts and teach them to speak the same language as representatives of industry."

#### IV

The answer to the question as to the influence of military and military-industrial circles in Sweden can only be relative because there are no obvious, unconditionally acceptable criteria for evaluating their activity. The author, however, is inclined to believe that the use of this category would lead to a deeper understanding of the real political mechanisms in this country.

The activity of these circles is manifested as a certain tendency that interacts in a complex way with other tendencies and phenomena in political life. It would clearly be pointless to attempt to identify and trade it "in pure form." Let us assume that in the course of the struggle surrounding the decision concerning military organizational development for the next quinquennium (1987/88-1991/92 fiscal years), the Moderate Coalition Party and the forces connected with it failed to secure the adoption of their demands. But did not their campaign for many years at all levels of social life for higher military allocations influence the political situation in the nation and contribute to a situation where for the first time in a considerable while, real military expenditures are nevertheless more or less rising? (Real cumulative military spending for the quinquennium will increase by 6 percent compared with the 1982/83-1986/87 fiscal years, following their decline by 2 percent in this period and a minimum—1 percent—increase in the preceding period.<sup>28</sup> The positions of such colossi in public life as the leading industrial groups or the Moderate Coalition Party cannot fail to influence the resolution of problems in security policy. British political scientist F. Castles correctly observes that the firm political positions of Scandinavian, in particular, Swedish Social Democracy, "are in part the result of the ability of the Social Democratic parties to create cooperative mechanisms between organized social groups... These mechanisms... starting in the '30's, became an element in political life in practically all areas. Such so-called 'corporate pluralism'," he adds, "can lead to a situation where the balance of group interests will be an equally important factor in democratic decision-making as the electoral system proper."<sup>29</sup>

And now the final remark, that is last in order but not importance. Sweden's armed forces threaten no one.<sup>30</sup> This circumstance raises the entire question of the consequences of military activity in Sweden to a special plane. The important thing is not just how many new aircraft or submarines will be delivered. The important

thing is that intensive military organizational development that is carried out primarily with U. S. assistance, is one more way in which Sweden is economically and politically tied to that country and to the West in general. Also of major importance is the influence that is exerted by military and right-wing circles on the character of the discussion of national security problems. It is an influence that tends to build up a distorted picture of the world in the mass consciousness, to affirm false ideas about the Soviet Union and its foreign policy.

#### Footnotes

1. Concerning military production in these countries, see, for example: "Gonka vooruzheniy v stranakh NATO" [The Arms Race in NATO Countries], Moscow, 1988; I. Thorsson, "In Pursuit of Disarmament," Stockholm, 1984; M. Meijis and J. Prins, "Wapenproductie en werkgelegenheid," Amsterdam, 1984; "The Structure of Defense Industry," London, Canberra, 1983; R. Lindroos, "Disarmament and Employment," Tampere, 1981; MI I MO, Nos. 2, 7, 1987; MILITARY TECHNOLOGY, April 1985; NEUE ZÜRCHER ZEITUNG, 18 March 1987.

The data in the text here and beyond refer primarily to the early '80's, with the exception of Spain (1984) and Switzerland (1987-1988). The self-supply indicator is declining to a greater or lesser degree (Sweden: by 20-25 percentage points), taking imports of assemblies and components by companies into account. The self-supply coefficient of some countries (Canada and Switzerland, for example) is rising significantly (by about 30 percentage points in both cases), taking into account the share of nationally produced components (previously exported) in the value of direct state purchases of military equipment and arms overseas.

2. Calculated on the basis of: VECKANS AFFARER, 25 April 1985, pp 48-63; "Statistisk årsbok 1987," Stockholm, 1986.

3. See: VECKANS AFFARER, 5 April 1979, p 17.

4. See: TIDEN, May-June 1986, p 322.

5. See: WALL STREET JOURNAL, 15 January 1987.

6. INTERNATIONELLA STUDIER, No 5, 1983, p 34.

7. See: KKAHT, No 3, 1983, p 95; VECKANS AFFARER, 13 December 1984, p 73.

8. VECKANS AFFARER, 5 April 1979, p 16.

9. Ibid., 20 November 1980, p 25.

10. See: DAGENS NYHETER, 16 October 1985.

11. See: VECKANS AFFARER, 5 April 1979, pp 15-17.

12. See: KKAHT, No 3, 1983, p 100.

13. See: "The Military Balance 1987-1988," London, 1987.

14. See: DAGENS NYHETER, No 3, 1983, p 97.

15. See: KKAHT, No 3, 1983, p 97.

16. See: A. Ortmark, "Okanda makthavarna," Stockholm, 1970, p 199.

17. See: FOLKET I BILD, 27 September-10 October 1973, pp 8, 9.

18. Cited in: B. Abrahamsson, "Military Professionalization and Political Power," Stockholm, 1972, p 115.

19. "Armed Forces and Society," Stockholm, 1968, p 79.

20. DAGENS NYHETER, 28 January 1974.

21. Ibid., 13 January 1984.

22. SVENSKA DAGBLADET, 15 March 1986.

23. DAGENS NYHETER, 11 June 1983.

24. Ibid., 17 June 1984.

25. See: INTERNATIONELLA STUDIER, No 5, 1981, p 32.

26. See: AFTONBLADET, 20 March 1987.

27. O. Svenning, "Social-demokratin och näringslivet," Borås, 1972, p 144.

28. Calculated according to: DAGENS NYHETER, 20 January 1987; 2 June 1987.

29. F. G. Castles, "The Social-democratic Image of Society," London, 1978, p 30.

30. Concerning Sweden's military doctrine and foreign policy, see: S. Morgachev, "Security Problems in Northern Europe and Sweden's Policy" (ME I MO, No 8, 1985, pp 71-81).

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## W. European Social Democrats' Economic Ideas Examined

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MEZHDUNARODNYYE OTNOSHENIYA in Russian  
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[Article by Professor Vladimir Stepanovich Pankov, doctor of economic sciences; sector chief, IMEMO, USSR Academy of Sciences: "Economic Conceptions of West European Social Democracy"]

[Text] Social Democratic ideas about the "social partnership" between labor and capital are closely connected with bourgeois political economy but at the same time are relatively separate from it. Nor are they identical with petty bourgeois views.<sup>1</sup> The uniqueness of Social Democratic conceptions is in large measure connected with the existence of three currents inside Sotsintern [Socialist International] parties. To be sure, the contours separating these currents are quite vague.

Right-wing reformist ideologues and politicians are to a considerable degree prone to equate the interests of society with the interests of big capital. At the same time, in capitalism "modernization" doctrines, they modify the postulates of bourgeois political economy with due regard to the given parties' composition and electorate.

The centrist (moderate) current, which reflects the views of the middle strata of capitalist society, frequently joins sides with the right wing, but shows relatively greater readiness for reforms of the trade unionist type. Left-wing Social Democrats, expressing the sentiments part of the working class, white-collar workers, and the intelligentsia, express their negative attitude toward capitalism, frequently citing various Marxist principles as the basis, and aspire to antimonopolist reforms.

The degree of relative distinctness of Social Democratic doctrines may increase or decrease depending on concrete historical conditions. In the '50's and '60's, the leadership of the Sotsintern parties pursued a policy of "deideologization," which was a *de facto* retreat in the area of political economy where it largely agreed with Keynesianism. However in the course of the "reideologization" of recent decades, the relative uniqueness of Social Democratic doctrines has once again intensified.

To be sure, the content of this process varied in the '70's and '80's. A leftward swing was seen in many Sotsintern parties in the middle of the '70's. Social Democracy advanced radical models of reform of the economy and quality of life that differed appreciably from Keynesian views. This leftward swing came to a stop in the '80's under the pressure of neoconservatism and in some parties (especially in the Italian, Portuguese, and Spanish socialist parties) it even gave way to movement in the opposite direction to a certain degree. However, since bourgeois political economy has advanced openly reactionary "neoconservative" currents to center stage, the

relative separation of Social Democratic theories from the dominant schools of bourgeois political economy is presently expressed more distinctly than in the '50's and '60's.

## Plans and Practices in the Reform of Property Relations

Social Democracy has undergone significant changes on a number of major politico-economic problems in the last decades. Let us first of all name property relations among these problems. In the '50's and '60's, Social Democratic leaders rejected entirely the demand advanced in the period between wars for the nationalization of the basic means of production and embarked on the path of open defense of private property. At the same time, the majority of Sotsintern parties declared property problems inessential and no longer timely.

In the '70's and '80's, these problems were to the contrary advanced to a prominent place in Social Democratic theory and discussion. Its ideologues theoretically formulate and try to implement "property reform" plans to one degree or another. Under the pressure of leftist forces, leaders of the Sotsintern parties agreed to the inclusion of compromise principles envisaging the possibility of expanding the state sector through the construction of new or the partial nationalization of already existing enterprises in certain program documents.

The most extensive nationalization program in the '70's was formulated by the French Socialist Party (FSP). After it came to power in 1981, it took measures to implement the program. At the same time, in 1981-1982 the socialist cabinet linked the implementation of the nationalization program to concessions to patronage. Thus owners of nationalized enterprises received significantly higher compensation than initially planned, and entrepreneurs received generous tax "gifts" and other financial benefits.

The in-depth democratization of nationalized enterprises promised by the FSP did not become a reality. The model of management, which remained for the most part traditional, "bureaucratic-etatist," reproduced in slightly modified form the separation of workers from the means of production. While they were in power, the socialists could not theoretically formulate and implement measures that would give nationalization a stable, long-term, truly democratic nature.

The British Labor Party (BLP) has shown increased interest in nationalization and state property in the '70's and '80's. It sharply opposes the Thatcher government's privatization policy. The party's program states: "The expansion of the state sector is the focal point of the Labor Party's entire economic and social strategy."<sup>2</sup>

Not all Sotsintern parties are entirely negatively disposed toward privatization. Some of them, especially in South European countries (where state ownership is

relatively high) admit the possibility of partial privatization with due regard to national specifics. Thus among broad strata of Spain's population, there is a negative attitude toward state enterprises created during the Francoist period. The Spanish Socialist Workers Party feels that part of their joint-stock capital should be sold into private hands. On the whole, however, the dominant opinion in West European social democracy is that the offensive of neoconservative forces against the state sector must be warded off, that the latter must be strengthened on the basis of its internal potential and state budget funding. "We do not need a conception of curtailment of state industry," emphasizes Austrian socialist H. Tiber. "We need instead an aggressive, well-thought-out strategy, the most important element of which is the mobilization of the internal potential for scientific research, development, and information."<sup>1</sup>

In the struggle against the neoconservative privatization policy, one sees elements of interaction or parallel actions of communists and Social Democrats. Such actions are gaining momentum in some West European countries, especially in France.

An important role in the ideological arsenal belongs to modernized conceptions of "economic democracy" emanating from the theories of O. Bauer, R. Hilferding, and a number of other theorists in the period between the two world wars. Models of "coparticipation" ("code-termination") of representatives of working people in the management of capitalist firms are considered one of the main instruments of transforming attitudes toward the means of production and of securing "economic democracy."

"Coparticipation" has undergone the highest degree of development in the Federal Republic of Germany where it has existed in various forms since the beginning of the '50's. According to the 1976 law, oversight councils are formed on a parity basis from representatives of stockholders and persons working for hire in companies with a work force of 2000 or more. Nevertheless, the chairman of the oversight council who has an additional vote in all conflict situations is mandatorily elected from the number of representatives of stockholders. Nevertheless, the quota of persons working for hire includes managers (at least one) whose economic interests are very similar to those of the major stockholders.

More radical than the "coparticipation" doctrine are the "self-management" concepts that are elaborated by theorists of several Sotsintern parties, especially the FSP, that largely reflect the views of leftist social democracy. They are difficult to analyze because the term itself is frequently invested with varying content.

"Self-management" concepts of many theorists of the FSP and the Belgian Socialist Party (French-speaking) are based on the thesis that the means of production must be made the group property of enterprise personnel (whether or not legally formalized) that manages them

directly in their own specific interests. This is the same sense of the "neutralization of capital"—an idea that is popular among Swiss social democrats and Austrian socialists—by assigning it to enterprise personnel.<sup>4</sup> At the same time, leftist social democrats that are under the influence of Marxism do not share such views. They try to link the "self-management" of low-level economic cells with the economic interests of all working people; they believe that the state must own the means for realizing social priorities in the production and accumulation spheres.

For all the differences in the content of various conceptions of "self-management," they are united by the demand to restrict big capital's control over the means of production and to expand the rights of working people in the management of enterprises. These points, if they are embodied in concrete actions, could help to strengthen the positions of the working people in the struggle for antimonopolistic reforms.

On the whole, "coparticipation" and "self-management" are of a double-edged nature where the principal classes of bourgeois society are concerned. They may promote both the strengthening of the proletariat's positions and the strengthening of the real subordination of labor to capital if representatives of the working people are placed in company management in the position of "junior partners." Nowhere have Sotsintern parties actually succeeded in securing real parity in representation even though the forms of "coparticipation" and "self-management" introduced by them have been instrumental in restricting the prerogatives of big business.

Among other directions of "property reform from within" intended to promote "economic democracy," social democrats attach great importance to "profit sharing" and "profit formation" among hired workers. Such conceptions, based on Bernshteinian ideas of "property dispersement" and the "democratization of capital" are popular in social democratic parties in Anglo-Saxon and Scandinavian countries.

The concept advanced by R. Meidner, a figure in the Social Democratic Workers Party of Sweden and a trade unionist, in the mid-seventies was very popular in social democratic ranks. He proposed using deductions from the profits of companies with a work force of less than 100 persons (two-third of all persons working for hire are concentrated in such companies in Sweden) to establish a large state fund that would be controlled by trade unions and that might in the distant future place the majority of industrial capital under its control.

The implementation of the "profit sharing" and "property formation" concepts could help to curb the tyranny of the financial oligarchy and to increase the social protectedness (*zashchishchennost*) of the working people. What is more, unlike state-owned stocks, "workers' capital funds" could not be privatized as a result of conventional normative government acts.

Under the pressure of business owners, in the '80's the Social Democratic Workers Party of Sweden modified the Meidner plan in such a way that deductions from the wages and salaries of blue- and white-collar workers were viewed more as the source of "working people's funds" than company profits. The creation of five regional funds from deductions from the wage fund and the tax on superprofits began in 1984. All regional funds combined are entitled to acquire up to 40 percent (the maximum for each fund is 8 percent) of the stocks of private firms. The latter, however, are not obligated to sell them their stocks.

The vulnerability of "property formation" conceptions as a means of anticapitalist reform is obvious to many leftist social democrats. Their theoreticians frequently criticize these conceptions and devote more attention to problems of nationalization and workers' control than they do to "property formation."

Among the instruments for changing relations with the means of production, social democrats in recent years have once again been giving special significance to various forms of cooperation, especially workers' and consumers' cooperatives (this has been written about, for example, by BLP leaders N. Kinnock and R. Hattersley).<sup>7</sup> Social democratic ideologues are speaking out for the creation of more favorable economic and legal conditions for the formation of new cooperative enterprises of all types, for the unification of legal norms concerning cooperatives within the framework of the EC.

As K. Marx showed, while cooperative enterprises drive the first breach in the capitalist form of production and promote its disintegration, they are unable to change the dominant type of ownership. Cooperative enterprises in some branches are actively used by trade unions and other organizations of the working people in the struggle to satisfy their economic interests and to exercise their social rights. At the same time, they play a subordinate role in the system of production relations and function in accordance with capitalist economic principles. This restricts the possibility of using them as an instrument of democratic and all the more so of antimonopolistic reforms.

Plans for "property reforms from within" incorporate contradictions that reflect the differentiation between different currents in Sotsiarn parties. On the one hand, right-wing reformist forces and the centrists that are kindred to them try to use these conceptions to draw the working class into "social partnership" with the bourgeoisie. On the other hand, under the pressure of leftist forces, provisions of an antimonopolistic nature (which, to be sure, are implemented to the least degree by these parties when they are in power) are included in such plans. Such dualism also inheres in other aspects of West European social democracy's economic platform.

### The "Renaissance of Plan Thinking" and Anticrisis Programs

Since World War II, West European social democracy—especially during its years in power—has had an appreciable impact on state economic and social policy. In the mid-seventies, West European social democrats undertook the development of modified models of state economic regulation and anticrisis programs, understanding that the uncritical borrowing of the ideas of bourgeois political economy, primarily Keynesianism, leads up a blind alley.

Views of the correlation between plan and market have undergone a certain modification: there has been a shift in emphasis from propagandization of the positive aspects of the latter to the search for avenues of effective regulation of market relations. Thus, J. Le Garrek, one of the leaders of the FSP and a French minister in the recent past, notes: "The plan acquired priority for the socialists. The duration, depth, and scope of the crisis necessitate the forecasting and conscious choice of goals; in no case should one swim with the current when implementing economic policy. The plan should thus become a factor in reducing indeterminacy."<sup>8</sup>

The "renaissance of plan thinking" was reflected in documents of Sotsiarn congresses 13-17 (1976-1986) that contain statements in favor of planning at the macroeconomic level. Changes in bourgeois political economy, within the framework of which advocates of free enterprise and anti-etatism have forced out advocates of "planned capitalism," differ appreciably from this trend.

Social democrats, particularly left-wing theorists, connect the resolution of urgent economic problems first of all with the modernization of the institutional mechanism of state economic regulation, with the development of new forms of "planning" (especially structural programming) that are not limited to influencing various parameters of market relations.

An important place in social democratic documents and scientific publications is assigned to substantiating the premise that shortening the work week (as a rule to 35 hours), increasing leave time, and lowering the pension age must play the paramount role in the fight against unemployment.<sup>9</sup> Such measures could probably lead to a certain reduction in unemployment, at least to a short- or medium-range reduction. It is for this very reason that communists in West European countries consistently favor the reduction of working time.

At the same time, there is sufficient reason to believe that the reduction of working time, while increasing payroll, social insurance, and other costs, will lead to the next stage in the capitalist intensification and rationalization of production that means the replacement of live labor by machines. Consequently, the reduction of working time can produce a long-term increase in jobs



only if it is reinforced by other actions preventing the emasculation of its effect. However social democrats have not as yet succeeded in devising a program of such actions, and in itself the regulation of working time, as the practice of a number of countries has shown, does not justify the hopes that have been placed in it.

It should be added to the foregoing that certain influential social democrats, in particular, Y. den Oyl, former leader of the Netherlands Labor Party, and O. Lafontaine, deputy chairman, Social Democratic Party of Germany, recommend without sufficient foundation that unemployment be combated by reducing working time but at the price of a wage cut. Such a measure, by restricting aggregate demand for consumer goods and services, would more likely promote the growth of unemployment. It was therefore entirely natural that this recommendation by O. Lafontaine was bitterly criticized by many participants in the last congress of the Social Democratic Party of Germany (held in Munster in late August, early September 1988).<sup>9</sup>

In addition to reducing working time, social democrats recommend combating unemployment by modernizing Keynesian tax and budget policy tools and by encouraging the state to play a more active economic role. They believe—not without foundation—that state investments are less subject to market fluctuations than private investments and that they will have a certain stabilizing influence on employment. In this connection, they sharply criticize the neoconservative economic "deregulation" conception on the grounds that it is subordinate to the interests of big business. Thus, F. Zinovatz, former chairman of the Austrian Socialist Party, observes: "To the conservatives, more freedom and less government still means that we should preserve the right of the strong to gain the upper hand in a society where it is customary to make one's way with one's elbows."<sup>10</sup>

The proposals regarding the modernization of Keynesian tools include, in particular, the popular idea in the social democratic movement of connecting investment benefits to private business with its long-term obligation to maintain and create additional jobs. Such an idea is realized in practice by certain incumbent Sotsintern parties. Thus, the Spanish Socialist Workers Party included in its government program for promoting employment in Spain the provision that enterprises creating new jobs are entitled to progressive profit tax reductions.<sup>11</sup>

Social democrats (particularly but not exclusively left-wing social democrats) differ from many representatives of neoconservatism and certain other schools of bourgeois political economy in their attitude toward the militarization of the economy. They are remote from praising military spending as a catalyst of production and employment but to the contrary reveal its negative consequences for the economy. Thus, prominent BLP theorist S. Holland emphasizes that "military expenditures aggravate the imbalance between the lagging and

technologically leading branches. With certain exceptions, state spending on the development of new arms tends to reduce state aid for the modernization and diversification of crisis sectors of industry in the context of their regional problems."<sup>12</sup>

Social democrats also point out that military spending creates far fewer jobs than investment in civilian branches. For these reasons, many Sotsintern parties, e.g., the Social Democratic Party of Germany at its congress in Munster (1988), are officially declaring themselves in favor of reducing such spending and of converting military production to civilian production.

The measures examined above, which are theoretically substantiated and practiced by West European social democracy, are in some measure responsive to the current needs of the working people. However, left-wing social democrats deem them insufficient. As P. Kalma (Netherlands Labor Party) emphasizes, the efforts of social democracy "must be directed toward the formation of **democratic** (my emphasis.—V. P. planning."<sup>13</sup> Theorists of the left wing of the socialist parties of France and Italy, the Social Democratic Party of Germany, the BLP, and a number of other Sotsintern parties (J.-P. Shevenman, F. Archibudzh, V. Meissner, S. Holland, and others) have since the late '70's conducted regular seminars and discussions for the purpose of conceptualizing such planning. The general contours of this conception are presented in the collective work "Out of Crisis. A Project for European Recovery."

The authors of this work connect the formation of democratic planning primarily with the strengthening and consolidation of state and cooperative property. They speak out for "the development of new forms of state and cooperative enterprises through which society can realize that which private enterprise does not and cannot do."<sup>14</sup> In the opinion of left-wing theorists, they are the very ones that will expand the supply of generally accessible goods and services for collective use in the area of housing, health care, sports, and recreation—areas in which private business has little interest due to the low profit margin.

Left-wing social democrats see democratic planning as a kind of intermediate form between socialist planning and capitalist programming, that is intended to avoid "both the excessive centralization of command economies and the simple, ineffective models of indicative planning."<sup>15</sup> They consider it necessary to improve the information base of planning by obligating large corporations, especially transnational corporations, to provide information about their internal plans, to actively involve trade unions in the adoption of planning decisions, to be highly selective in programming large-scale investments through "plan agreements" (contracts) between the government and firms, and through authorization or rejection in accordance with a democratically developed "scale of needs."

The views of left-wing social democracy on planning contain elements of democratic alternatives but do not as yet go beyond the framework of generalities. The question of the socioeconomic and political mechanism of democratic planning is probably the most vulnerable link.

With the worsening of ecological problems, the social democrats are devoting more attention to aspects of state economic regulation that are related to environmental impact. The different schools of West European social democracy have a great deal in common in their views of "ecosocialism." Thus they all recognize the necessity of implementing "the polluter pays" principle, of imposing tighter norms on the discharge of effluents, of encouraging the recycling of resources, and of introducing a system of preventive measures.

The proposal of the social democratic faction of the European Parliament on the introduction of testing of enterprises' products and technologies (with the participation of broad strata of the population) into economic practice to ensure their environmental compatibility. As faction member B. Weber (Social Democratic Party of Germany) notes, such testing should conform to the following rule: "Plans, projects, and maximum allowable effluence norms are acceptable only after the appropriate confidence level and general consensus have been reached through public debate on possible alternatives."<sup>15</sup>

Social democrats expect that measures to overcome the ecological crisis will normalize not only the environment but the economy as well, that they will have a favorable impact on employment. Thus the Nuremberg (1986) congress of the Social Democratic Party of Germany urged the establishment of a special quasistate "Work and Environment" foundation in the FRG. It proposed that the foundation be funded by a special tax on energy consumption and by credit obtained from the loan capital market. This foundation should defray a considerable part of the cost of protecting the environment and of developing the production of equipment required for ecological needs. Any enterprise investing capital in the production of such equipment or installing this equipment may receive lower-interest loans for capital investments from the foundation. The Social Democratic Party of Germany estimates that the establishment of the foundation may mean work for 400,000 persons in the long haul.<sup>16</sup>

The views of social democrats on ecological aspects of state economic policy are in large measure similar to the conceptions of other progressive forces, including communists, in capitalist countries. But the practice of incumbent social democracy does not by any means always correspond to its theories. Under the pressure of big capital, it frequently grants various indulgences to corporations, thereby relieving them of a significant share of the ecological costs.

### Conceptions of International Economic Relations

In recent years, social democracy, including West European social democracy, has devoted more attention to microeconomic problems. Thus the need for the further development of existing and the introduction of new mechanisms of international regulation of the economy within the framework of the EC and at the global level has been persistently argued. Social democrats list TNC operations among the most important objects of supranational regulation. They deem it necessary to enlist the aid of the trade unions extensively in overseeing the activity of the TNC's, emphasizing that their "closer international cooperation at the trade union and political level" alone can be an adequate response on the part of national detachments of the working class to the internationalization of capital.<sup>17</sup> However, as regards the degree of development and especially the implementation of ideas concerning oversight over the TNC's, the social democrats are practically where they were in the late '70's and early '80's.

The ideologues of West European social democracy, attempting to find a compromise between the interests of the local bourgeoisie and the working people, are frequently negative in their references to American transnational business but are entirely loyal to "their" transnational corporations. Naturally, this kind of double standard does not favor the formulation of consistent policy. What is more, West European social democracy has by no means used its political influence to develop a behavior code for TNC's and to secure its adoption by the UN. This is largely because it fears that such a measure might greatly weaken the West's positions in the developing world.

Social democrats assign a special role to West European integration in the development of international forms of economic regulation. The idea of a "united Europe" is a long-standing tradition in many social democratic parties. The dominant thought in Sotsintern parties is that social democracy must be (and has largely already become) the main integrating force in the Old World. In this sense, there is discussion of a future "United Socialist (i. e., social-reformist.—V. P. ) States of Europe."<sup>18</sup>

It is true that some social democrats are very critically disposed toward West European integration. This disposition is also common in the BLP and in the Social Democratic Party of Denmark. Nevertheless it is not supported not only by the leadership of these parties but by the majority of their members as well. The prevalent idea among left-wing social democrats is clearly not the idea of leaving the EC, but is rather the idea of a left-wing alternative to the existing integration mechanism.

Social democrats invariably play an active role in the development of documents of countries of the Community relating to integration (including the Single European Act adopted in 1986). This is in large measure

because of the broad representation of social democrats in various EC bodies, up to and including the Commission of European Communities which is headed by J. Delors, who was until recently one of the leaders of the FSP. The social democracy's integration models have much in common with the conceptions of bourgeois theoreticians. A specific feature of the theories of social democratic parties that is determined by their social base is the relatively greater attention that is paid to the social aspects of integration and its influence on the plight of persons working for hire.

Social democracy favors the closer coordination and "harmonization" of the economic and scientific-technical policy of EC countries for the purpose of accelerating the structural restructuring of national economies, for the development of programming within the framework of the Community, especially in high-tech branches, and for budget reform. The manifesto of the BLP on the last elections to the European Parliament, which was approved by the socialist group of the European Parliament, emphatically stated: "We demand that the share of expenditures on industry and employment in the Community's budget be dramatically increased on the basis of allocations for agrarian policy."<sup>19</sup>

The impossibility of further supporting the existing mechanism for financing agrarian policy is also coming to be realized by social democrats in EC countries that have up to now benefited the most from this policy. Thus, French socialists are busy looking for a compromise formula that would make it possible to reduce spending on "green Europe," to reduce the cost of food, to curb the overproduction of agricultural produce, that is largely due to the price mechanism of the Community's agrarian market, and at the same time to avoid the accelerated proletarianization of the peasantry.

Since the early '80's, social democrats have devoted more attention to currency integration. The social democratic movement in EC countries have devised plans for the further development of the European Monetary System that formed in 1979. In particular, it is proposed to create within its framework its own currency unit that would be "uncoupled" from the dollar. At the same time, the attempt of social democrats to strengthen Western Europe's relative independence cannot be viewed as some kind of anti-Americanism. To the contrary, they proceed from the premise that military-political and economic collaboration with the USA is the guarantee of the viability of Western Europe and an important prerequisite to its development in the direction of "democratic socialism." Hence their readiness to make significant concessions to their overseas partner.

Recommendations concerning economic and currency integration are to one degree or another realized through national-state regulatory channels and the activity of EC bodies. At the same time, social democrats are experiencing great difficulty finding an answer to the principal integration problems that have resulted from the

increasing gap in the conditions of economic development of EC countries (the so-called "economic divergence"). Already in '70's, social democrats realized with the formation of a durable economic and monetary union was impossible without the convergence of levels of economic development of individual countries.

The conception of "several speeds" ("several levels") of integration, advanced by W. Brandt in 1974, is popular in the ranks of West European social democracy. It essentially means that the Community should create several zones with varying degrees of integration. Convergence should be most rapid for the economies of the most highly developed countries while other countries might not be so firmly bound to their partners and may move at a slower pace toward economic and monetary unity.

In reality, multilevel integration may do more to exacerbate than resolve the "divergence" problem since the group of the most highly developed countries, using the advantages stemming from the closer intertwining of their economies, could probably increase their superiority over other participants in the bloc. This is confirmed by the experience of the European Monetary Union in which the conception of "several levels" is quite completely embodied. The creation of the European Monetary Union unquestionably led to the closer coordination of the currency policy of the majority of the Community's countries. However, this did not prevent the further increase in "divergence." As a result, two countries (Italy and Ireland) were compelled to continue to use the special regime within the framework of the European Monetary Union, while Great Britain and Greece remain outside this currency bloc.

It should be noted that the conception of "several levels" of integration is also widespread among social democrats in West European countries that do not belong to the Community. Back in 1970, B. Krayskiy, the vice-chairman of Sotsintern, who was then the head of the Austrian Socialist Party, spoke out for the convergence of these countries with the EC and for the creation of several zones with varying degrees of integration in the region.<sup>20</sup> This idea found its embodiment in the free trade zone for industrial products between the EC and the EFTA. In the opinion of P. Yanovich, a prominent figure in the Austrian Socialist Party, the result of the expansion and strengthening of the EC will be that countries not belonging to this grouping may be "marginalized and cast aside." To be sure, for a number of economic and political reasons, he did not consider the question of Austria's entry into the EC timely, but urged their closer convergence. Yanovich believes that the Austrian Republic must "everywhere support any plans promoting the introduction of models like "Eureka" in other areas of European integration."<sup>21</sup> A similar position is quite authoritative in the social democratic movement in Switzerland, Norway, and certain other countries.



Regardless of whether there is another expansion of the Community, it can be expected that centripetal forces will prevail over centrifugal forces within its framework at least until the early '90's. The dramatic increase in competition in the world capitalist economy will compel EC countries to find ways of increasing integration and overcoming crisis processes. The social democratic leadership intends to continue actively supporting the closer convergence of countries belonging to the Community in social, political, and military areas.

Since the implementation of the provisions of the Single European Act does not in any way guarantee the democratization of the EC, the development of the left-wing social democratic alternative to the integration policy of the integration policy of the ruling circles of the Community. Different aspects of such an alternative are widely discussed on the left flank of West European social democracy; nevertheless its contours are still not sufficiently clear.

The problem of economic relations between the developed capitalist countries and the developing countries is the source of serious concern to social-reformist leaders. Their conceptions concerning this problem includes two basic aspects. First, West European social democracy plays a leading role in the theoretical formulation of the general strategy of all Sotsintern parties, which finds reflection in its documents. This strategy, which is intended to relieve contradictions between centers of the world capitalist economy and its periphery presupposes more significant concessions to young states compared with those that most bourgeois theorists consider admissible.

The decisions of Sotsintern congresses 13-16 proclaimed the intention of expanding the volume of aid to developing countries to 0.7 percent of the GNP of developed countries (some West European Sotsintern parties promoted this in fact while they were in power), of liberalizing imports from the Third World, of assigning more balanced prices to raw materials, and of maintaining the dialogue between North and South with the aim of forming a new international economic order. The Lima manifesto of the 17th Sotsintern Congress emphasizes that industrial countries "must bear greater responsibility for technology transfer to the Third World, that would be effective, that would correspond to the demands for environmental protection, to economic needs, and to the available resources."<sup>22</sup>

One of the most important positions of social democracy is the proposal dating back to the late '70's to launch a "new Marshall Plan" for the developing countries. The authors of the given doctrine, among whom a special role belongs to B. Kravskiy, draw an analogy with historical events in the late '40's. It is well known that the Marshall Plan was viewed by its initiators as an instrument for stabilizing world capitalism by subordinating Western Europe to U. S. global strategy. The new edition of the

ideas in the "Marshall Plan"—this time aimed at different regions—was obviously intended to keep liberated countries following in the wake of world capitalism at the price of partial concessions to these countries.

Second, the ideologues of social democracy are developing models of state regulation of North-South relations, that take into account the specific interests of the bourgeoisie and the ruling circles of West European countries. Such models are primarily oriented toward former colonies of Old World countries.

West European social democracy is partially taking into account the demands of Asian, African, and Latin American countries concerning the establishment of a new international economic order in trade, finance, and technology transfer, and is expressing the readiness to make occasionally considerable concessions in the area of distribution. As a result, it enjoys a better reputation in the developing world than many bourgeois parties, especially those belonging to the neoconservative school.

An important place in social democratic conceptions of world economic problems is assigned to the development of economic relations between countries belonging to the two systems. West European social democracy in the '70's and '80's on the whole occupied a constructive position in this area that largely coincides with the views of socialist countries.<sup>23</sup>

The increase in the relative separation of the economic views of social democracy from the dominant schools of bourgeois political economy is one of the weighty factors in the increased opportunity for the joint action of communists and social democrats in the struggle for democracy and social progress and against the arms race and confrontation. The CPSU attaches great importance to the interaction of the two basic detachments of the labor movement. The Party Program states: "The CPSU will continue the line of development of relations with socialist, social democratic, and labor parties. Collaboration with them may play a significant role, especially in averting a nuclear war." For all the complexity and contradictoriness of the positions of social democracy on key economic problems and the preservation of ideological differences between the two basic detachments of the labor movement, their constructive dialogue and mutual understanding for the sake of resolving general human and global problems are one of the imperatives of our time.

#### Footnotes

1. In Soviet literature of the '50's and '60's and in some later publications, conceptions of social reformism were identified with doctrines of bourgeois or (considerably less frequently) petty bourgeois political economy. If such an identity really existed, it would hardly make

sense to raise the question of the possible interaction of communists and social democrats in the struggle for deep democratic, antimonopolistic reforms and social progress.

2. "Labour's Programme 1982," London and Welshpool, 1982, p. 18.

3. DIE ZUKUNFT, No 2, 1986, p. 10.

4. See, for example: FUTURIBLES, No 53, 1982, p. 60; "Programm der Sozialdemokratischen Partei der Schweiz," Bern, 1983, p. 43; DIE ZUKUNFT, No 7/8, 1982, p. 30.

5. See DIE NEUE GESELLSCHAFT/FRANKFURTER HEFTE, No 5, 1988, p. 420.

6. LA NOUVELLE REVUE SOCIALISTE, No 2, 1987, p. 21.

7. See, for example, DIE NEUE GESELLSCHAFT, No 6, 1981, p. 495; SOCIALIST AFFAIRS, No 4, 1980, p. 102; No 1, 1981, p. 13; DIE ZUKUNFT, No 11, 1985, p. 15; L'UNITE, No 672, 1986, pp. 4-7.

8. See SOCIALIST AFFAIRS, No 1, 1981, p. 144; FRANKFURTER ALLGEMEINE ZEITUNG, 1 October 1988.

9. DIE ZUKUNFT, No 3, 1987, p. 2.

10. See CAMBIO-16, 27 October 1982, pp. 23-24.

11. S. Holland, "The Global Economy," London, 1987, p. 407.

12. SOCIALIST AFFAIRS, No 1, 1986, p. 321.

13. "Out of Crisis. A Project for European Recovery." Ed. by S. Holland. Nottingham, 1983, p. 110.

14. Ibid., p. 118.

15. VORWARTS, No 5, 1987, p. xvi.

16. See "Service der SPD für Presse, Funk, TV. Übersicht über die Beschlüsse des Parteitages in Nürnberg. Teil 4: Wirtschafts- und Beschäftigungspolitik." Bonn, 1986, p. 5.

17. DIE ZUKUNFT, No 3, 1986, p. 11.

18. See SOCIALIST AFFAIRS, No 1, 1981, p. 32.

19. "Labour's Manifesto for the European Elections." London and Welshpool, 1984, p. 2.

20. See DIE NEUE GESELLSCHAFT, No 3, 1970, p. 293.

21. DIE ZUKUNFT, No 4, 1987, pp. 30-31.

22. SOCIALIST AFFAIRS, No 3, 1986, p. 20.

23. For more detail, see ME I MO, No 10, 1987, pp. 121-127.

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### Conference on Problem Areas in East-West Joint Ventures

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[Article by Yevgeniya Leonovna Yakovleva, senior scientific associate, IMEMO, USSR Academy of Sciences: "Hot Spots" in East-West Joint Ventures]

[Text] A conference on problems in the development of East-West joint venture was held in Rome. Participating in the conference were scientists and representatives of the business community in many socialist and developed capitalist countries. The conference was held within the framework of the "Process of International Negotiations" project under the auspices of the International Institute of Applied Systems Analysis (IIASA, Austria) and the Institute of Management, Research and Development (IFAP, Italy).

The conference was a continuation of an IIASA scientific seminar on joint ventures that took place in Helsinki (Finland) in 1987. Among the conference's objectives was the definition of prospective topics for research concerning East-West joint ventures, the compilation of a plan, and the resolution of a number of organizational problems with regard to an international conference on these problems which is scheduled to be held in 1989.

In the opinion of IIASA, the general idea of the "Process of International Negotiations" project is that the role of negotiations is growing immeasurably in the political, social, and other areas of public life in today's increasingly interconnected and interdependent world. Accordingly, it is necessary to make it easier for partners to conduct reciprocal negotiations, to identify and eliminate obstacles hindering this process, and to create conditions favorable to contacts.

The problem of international negotiations was examined on the basis of East-West joint ventures. It was occasioned by the need to give impetus to economic collaboration between capitalist and socialist countries which encountered major difficulties in the '80's, and also by the role that can be played by the new forms of collaboration, including joint ventures, in this process. The number of East-West joint ventures has grown very rapidly in recent years.<sup>1</sup> At the same time, many unclear

points and problems requiring immediate resolution arise in negotiations on joint ventures involving partners from socialist and capitalist countries.

Participants in the conference discussed wide-ranging questions—from the first steps in determining the potential for collaboration to the interaction of partners in a joint venture. The negotiations were in three phases: the prenegotiation phase, the negotiation phase proper, and negotiations in the course of managing the joint venture. The conference examined problems and tasks of improving collaboration in keeping with this classification.

Negotiations on joint ventures are a complex process. In the course of these negotiations, the partners must clearly define their goals, the object of collaboration, methods and forms of organization of the activity of a venture, the range of questions that should be reciprocally coordinated. The different interests of the parties influence the organization of all the work of a joint venture. It is not by chance that Western jurists are wont to liken this form of collaboration to marriage. Like marriage, it is difficult to classify the multitude of joint ventures and the situations that arise in connection with them. Nevertheless, they can be classified to a certain degree. It has been noted, in particular, that in spite of all, sometimes quite significant differences in the interests of the parties, it is possible to find common approaches to the solution of individual problems or sensible compromises ensuring the success of collaboration.

Two approaches to the forecasting of possible failures surfaced at the conference. A number of participants suggested that it did not make sense to enter into a cooperative relationship with a partner if one has all conceivable variants of failure in one's head. Especially because the number of failed partnerships is relatively small—approximately five percent. Other, obviously more pragmatic participants felt that since no one is insured against conflicts and failures in economic activity, the possible measures and guarantees must be reflected in detail in national legislation and contracts. In their opinion, it is also necessary to think about the methodology of conflict resolution in mixed societies.

Negotiations are greatly influenced by such factors as the economic environment, the political climate, cultural traditions, etc. The top priority task of negotiations is to take them into account as far as possible.

Practice indicates that there are still many obstacles to the organization of East-West joint ventures. When this form of relations was first established, there was much criticism by capitalist firms concerning the legislation of socialist countries that regulates the creation, operation, and termination of the activity of joint ventures. The current impression is that the urgency of the problem has diminished somewhat. To a considerable degree, this is the result of major efforts by socialist countries to

improve the legal base of joint ventures. But this does not mean that all legal issues have been resolved, especially in the legislation of countries that are only now entering into joint ventures on their own soil with foreign participants.

The first issue that surfaced was the insufficient development of the infrastructure, i.e., a problem that should have been resolved if not prior to the first joint ventures, then at least in the initial period of their functioning.

In the unanimous opinion of all participants in the conference, one of the most serious obstacles to international joint undertakings is the meagerness and inadequacy of the information available to the parties to their needs. This information must cover not only the direct conditions of activity of such ventures or the actual participants in the negotiations, but also the specific features of the economy of nation-partners; its state as a whole, its individual sectors and branches. It is also information of a qualitative nature, for example, regarding the legal and administrative regulation of economic activity in the nation. A substantive research task is to define the range of questions on which information is required so that the creation and operation of East-West joint ventures would be successful.

The location of the accumulated information is important. The task of individual countries is not only to create data banks but also to secure the unhindered access of foreign partners to them. Participants in the conference noted the need for the more integrated and systematic accumulation of information on such an undertaking at the international level. Many national and a number of international scientific organizations are researching this topic. Its concentration in some one or several centers would facilitate the coordination of efforts of Eastern and Western nations and would eliminate needless duplication of effort.

Much attention has been devoted to the training of cadres participating in negotiations and in the work of joint ventures. Specific features of this form of collaboration and major differences in the economic activity of nation-partners dictate the necessity of training cadres in both East and West. This training can be carried out on national soil or in foreign countries by local or foreign specialists, by the efforts of one country or by joint efforts. It can take the form of special courses at institutions of higher learning, seminars, business schools, internship, etc. Only the use of the entire spectrum of potential in training cadres and the determination and broad introduction of the most progressive forms and methods make it possible to make negotiations truly effective.

Small and medium-size firms are active participants in and a large potential reserve for joint undertakings. They account for about half of all agreements on joint ventures



in socialist countries. However they have far less potential for obtaining information and training cadres than large companies and this must be taken into account in the implementation of any measures.

Participants in the conference concluded that a common methodology is required for successful negotiations. There is still no consensus even on the definition of joint ventures. Western representatives are generally inclined to interpret the concept of "joint ventures" more broadly than their socialist partners, specifically as joint actions aimed at the attainment of the given objectives. Socialist countries define these ventures as a joint form, a company involving the participation of partners from various countries with common capital, with joint management, with the division of profits and risks in proportion to the parties' investments.

A common methodology would also be useful in conducting feasibility studies and in calculating the economic effectiveness of joint ventures. For many years, UNIDO has been developing such methodology for different investment projects, *inter alia*, for East-West joint ventures. The computer model for evaluating feasibility studies and effectiveness, which was created within the framework of the UNIDO, is used in a number of countries, including the Soviet Union. Participants in the conference repeatedly emphasized that the broader use of the potential of computer technology is one of the substantive conditions to the development of joint ventures.

The speakers also frequently addressed other serious problems relating to East-West joint undertakings. Many of them are connected with the economy of socialist countries or the world economy and influence the scale and character of East-West economic relations in general and not only joint ventures. At the same time, substantial differences in internal and world prices, exchange rates, and wages; the inconvertibility of the national currencies of socialist countries, and similar questions exert the greatest influence specifically on the activity of joint ventures where different economic systems come together directly.

The fact that joint ventures are created on the soil of socialist countries as juridical persons of these countries and are elements of their national economies has predetermined the attention that is devoted to economic reform processes in socialist countries. Western representatives were interested both in long-range trends and their impact on the investment climate and in current measures taken by socialist countries and their partners in joint ventures to eliminate bottlenecks in the largely transitional economy of socialist countries.

The problem of currency cost recovery of joint ventures is one such bottleneck. Exporting part of their output is a cardinal solution of the problem. But it is not always possible. Moreover, Western partners are primarily interested in gaining access to the markets of socialist

countries. In this connection, it is desirable to look for alternative variants for obtaining convertible currency, for supplementing exports, and for compensating Western participation.

Compensation of the partner with goods produced by a joint venture or with goods created in a given country is the most common solution to this problem. But the potential for such compensation is limited primarily to the interests of Western partners and the absence of vast wholesale markets in socialist countries. Therefore at the conference there was wide discussion of partial compensation in the currency of socialist countries and a search was made at the same time for ways of spending it; of the sale of the goods of joint ventures to local producers for convertible currency; of limited convertibility of currency for joint ventures if their products replace imports or are high-tech.

The speakers noted that East-West joint ventures can make more complete use of their rich potential for technology transfer. The scale of transfer of technical knowhow and its level; the impact on this process by the restrictive policy of COCOM and individual capitalist countries, the role that the scientific institutions of individual countries can play—this is by no means the complete list of questions for future research.

The possibility of creating joint ventures in the USSR generated enormous interest among representatives of many companies and banks at the conference. They noted that in addition to improving the conduct of negotiations, there must be further improvement in Soviet legislation on joint ventures.<sup>2</sup> Their newness, the low degree of concretization of many important questions, and the practically complete absence of a differentiated approach to the various branches of production, complicated by the absence of joint-stock legislation in our country, places an excessively heavy load on negotiations between partners.

The broader use of international contracts to eliminate double taxation or to protect and promote foreign investments would also promote the development of joint ventures.

The coordination and unification of the efforts of all interested parties—countries, enterprises, firms, international organizations would help to resolve the enumerated problems. Today it is extremely important not only to continue scientific research on East-West joint undertakings, but to do everything to introduce them. In this regard, attention is merited by certain suggestions by participants in the conference on the practical realization of the results of scientific research, in particular, on publishing a dictionary of terms on joint ventures and a book of questions on key aspects of the given form of collaboration, on the further development and use of computer models, and on the study of the experience of various countries.

## Footnotes

1. While at the end of 1987, there were 166 joint ventures in CEMA member nations with a foreign investment of \$500 million, at the beginning of 1989 there were more than 190 joint ventures in the USSR alone and more than 200 in Hungary. There are more than 300 joint ventures in the Socialist Federal Republic of Yugoslavia and more than 10,000 in China.

2. In December 1988, the USSR Council of Ministers adopted the decree "On the Further Development of the Foreign Economic Activity of State, Cooperative, and Other Social Enterprises, Associations, and Organizations." COPYRIGHT: Izdatel'stvo TsK KPSS "Pravda". *Mirovaya ekonomika i mezhdunarodnyye otnosheniya*, 1989

### Book on North American Economic, Political Integration Reviewed

181600096 Moscow MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA in Russian No 4, Apr 89 pp 149-151

[Review by N. Shmelev and A. Parkansky of book "Severoamerikanskaya integratsiya: ekonomicheskiye i politicheskiye aspekty" (North American Integration: Economic and Political Aspects) by T. V. Lavrovskaya. Responsible editor: A. V. Anikin, doctor of economic sciences, Moscow, Nauka, 1987, 272 pages]

[Text] Integration today is a characteristic form of manifestation of the general process of internationalization of the productive forces. It presently permeates the entire fabric of economic and political life of the developed capitalist and developing countries with a greater or lesser degree of intensiveness. In the last 2 decades, integration associations have become integral elements in the system of relations among three imperialist centers, between the latter and the developing countries. They exert a stronger influence on the general course, forms, and methods of interaction of the two systems than in the first postwar decades.

What has been said also applies in full measure to North American integration. As convincingly shown in the book under review, "the bonds between the USA and Canada are no less strong than the integration bonds between countries in Western Europe" (p 258) and "the results of interaction of the economies in countries in the European Community yield in large measure to the results of North American integration" (p 6). Highly integrated commodity, capital, and manpower markets promote the intensive growth of the reproductive processes of the two countries, which is manifested in the synchronization of the dynamics of the most important economic indicators and in the increasing interdependence of the USA and Canada. It is now practically impossible to talk about their economies separately

because the existence and development of the American-Canadian economic complex are so much in evidence. The author reveals the especially important significance of integration of the basic branches of material production.

As the work shows, the synchronization of economic processes in the course of integrative interaction is simultaneous with the leveling of the main economic macroindicators per capita GNP, labor productivity, etc.

The monograph contains a fundamentally important conclusion about the dominant role of the United States in integrative processes involving Canada. In T. Lavrovskaya's opinion, the unequal position of the latter in this process is one of the main sources of centrifugal trends in American-Canadian interaction. The calculations cited by her show that the asymmetry of this interaction is the consequence of differences in the relative economic might of the two countries and the relatively lesser significance of integration to the United States.

The importance of Canada to American business has indeed declined in recent decades compared with other countries and regions. Its share in U. S. exports dropped from 21.0 to 20.9 percent between 1970 and 1986; its share in imports declined from 27.8 to 17.7 percent. Canada's share in direct U. S. corporate overseas investments declined from 29.2 to 19.3 percent between 1970 and 1986; its share in direct foreign capital investments in the United States declined from 23.5 to 8.7 percent. For Canadian business, on the other hand, relations with the USA have become more important especially in the '80's due to the deteriorating situation in the world markets.

As a result, the benefits of the integration process over time have proven to be less and less significant for the United States than for Canada. In the '80's, this asymmetry became so threatening to Canadian big capital that it decided to take the initiative in stepping up the integration process.

We should emphasize here that the events following the completion and publication of the study make it particularly timely. An American-Canadian free trade agreement was signed in January 1988; in October of the same year, the agreement was ratified by the USA, and in January—by Canada. This marked a new, qualitative change in the development of integration processes between the two countries.

The agreement called for the elimination of barriers in bilateral trade in goods and services, for the development and application of joint mechanisms for regulating

reciprocal competition and trade conflicts, for the considerable easing of restrictions on investments by American firms in Canada. The abolition of import duties on agricultural commodities and of import and export restrictions on trade in energy resources was of especially great importance.

Both sides made unprecedented decisions aimed at the liberalization of trade in services; an agreement was reached granting one another's companies national status in architecture, tourism, telecommunications, transport, and in computer and financial services.

An important part of the agreement was the elimination of the 25-percent ceiling on foreign ownership in Canada's credit and finance sphere as well as the elimination of restrictions on the expansion of assets of Canadian affiliates of U. S. banks. Canadian banks are authorized to float and trade securities in the United States that are issued or guaranteed by the Canadian government.

Both sides agreed to follow GATT arrangements in the area of quantitative trade restrictions and in the issuing of government orders. This will stimulate reciprocal trade since it will expand the access of both sides to one another's government markets and will eliminate import quotas.

What goals were the sides pursuing? Why did the United States, which had previously avoided binding itself with such international obligations, agree to the legal formalization of integration processes with its northern neighbor? Even though the book was written before the American-Canadian trade pact was concluded, it offers convincing answers to these questions.

Thus, the author argues that "the rationalization of production and the maximization of profits on the basis of effective competition in internal and external markets is a factor that ensures the interest of North American monopoly capital in liberalizing trade and in other forms of intensifying regional integration." In her opinion, "convergence in the securing of these basic priorities prevails over factors of national economic stability and independence" (p 253).

Nor does the book fail to address such a problem as the active opposition that exists in both the USA and especially Canada to the development of the integration process. It notes that the deepening of bilateral interaction in certain stages conflicts with the interests of one of the sides, that integration develops unevenly, and that it is accompanied by serious centrifugal tendencies. However the author justifiably believes that the economy today is dominated by the striving to strengthen regional consolidation. By the mid-eighties, she writes, "all real contradictions and semirhetorical conceptions of 'diversification,' 'reorientation,' and 'Canadianization' were dominated by centripetal tendencies that occasioned Canada's openly pragmatic approach to interrelations with the USA" (p 244). The arguments cited in the

monograph in favor of this point of view are very convincing. It is noted in particular that U. S. and Canadian economic problems are largely identical. Principal among them are: the stabilization of economic growth, reducing levels of unemployment and inflation, and increasing international competitiveness. However, increasing the effectiveness of the North American economic complex requires the formulation and implementation of a unified economic, scientific-technical, and foreign economic policy, which is practically unattainable without an officially formed economic community. Therefore the agreement's conclusion regarding free trade is an entirely logical and natural step.

Processes distinct from the economic area are seen in the political interaction of the two countries. The monograph draws the important scientific and practical conclusion that "the degree of political integration, i. e., the degree of unity of U. S. and Canadian economic, social, and foreign policy remains low" (p 8). Examples of the divergence of official policy of the two countries on a number of international situations are cited. The author shows that the striving of Canada for positive change in the postwar period in the solution of urgent international problems is to a substantial degree "the watershed between the global strategy and tactics of U. S. imperialism and Canadian policy" (pp 252-253). She draws an important conclusion regarding the possibility of an individual country retaining its political independence in the face of deepening integration. It appears that this conclusion is closely connected to the specifics of North American integration revealed by the study.

The fact of the matter is that in T. Lavrovskaya's opinion, not every integration process necessarily includes such components as the creation of international bodies, unified economic policy, and the unification of economic structures. Her work analyzes another model—not "integration from above" but "integration from below," when the process was not at the state level, and "economic objects at the lower level: enterprises, firms, corporations, etc." were the principal driving force behind the unification of national economies (until the late '80's (p 257).

The study would have benefited if it had devoted more attention to the intraregional aspects of the investigated phenomenon. In the opinion of a number of American and Canadian specialists, the further intensification of the integration process will have important intraregional consequences: in particular, there will be a more intensive Western, Pacific bias in Canada's economic development. For example, according to the estimates, its western provinces will be the primary beneficiaries of free trade—their economy is to a greater degree based on the exploitation of natural resources, the exporting of which (timber, certain types of mineral raw materials, and agricultural commodities) is restricted by protectionist barriers. These provinces also suffer to a greater degree from the fact that prices on finished industrial goods imported from the neighboring country are unduly



high because of Canadian protectionist barriers. It is expected that as a result there will be more active economic interaction between Canada's western provinces and the leading U. S. western and southwestern states.

Let us also mention one other point. Like a number of other researchers, T. Lavrovskaya believes that the intensification of interimperialist competition leads to consolidation within the framework of individual regions—in Western Europe, in the Pacific region around Japan, and in North America (pp 6-7). It seems to us that this point of view substantially underestimates interregional integration processes. For example, the economic interaction of the North American and Asian-Pacific regions is developing intensively. The importance of economic relations with Pacific Rim countries, especially with Japan, as well as with developing countries and territories in Northeast and Southeast Asia is steadily growing in particular as regards Canada and especially its western provinces. Their share in direct private foreign investments in Canada is growing while the share of other regions is declining. A similar long-range trend is also seen in Canadian foreign trade: the share of Japan and other Asian countries exceeds the West European share in it. Naturally, it is considerably smaller than the American share, but it should not be understated: thus the share of Canadian exports to Japan in Canada's GNP is roughly the same as the share of American exports to Canada in the U. S. GNP (1.2 percent compared with 1.4 percent in 1985. Import indicators are comparable. In other words, relative to the GNP, trade with Japan is just as important to Canada as trade with Canada is to the USA.

It should also be noted that where Canada's western provinces are concerned, the economic interaction with Japan is one of the principal factors in their economic development: the bulk of Japan's direct private capital investment in that country (primarily in the extractive industry) is in British Columbia and Alberta; the Pacific provinces account for about 80 percent of total Canadian exports to Japan.

Many specialists consider the further deepening of American-Canadian-Japanese interaction inevitable due to objective, long-range trends in the economic and scientific-technical development of the three countries and the Asian-Pacific region as a whole. The importance of economic interaction in the USA-Canada-Japan triangle to the development of each of these countries is increasing. In particular, the value of trade with each of the two others is growing relative to its GNP: for the USA it reached 5.5 percent in 1985 (1971—3.2 percent); Japan—7.3 percent (1971—5.6 percent); Canada—38.7 percent (1971—26.5 percent). It is questionable that it would be in the interest of the USA and Canada to create a closed bilateral grouping, to curb their participation in integration processes in the Pacific region. However it was not by chance that during American-Canadian negotiations on the creation of a common market, the USA

proposed the conclusion of such an agreement to Japan. In Canada voices favoring the inclusion of Japan in American-Canadian integration are also heard.

The cited points naturally are of a supplementary nature and relate to only one of many aspects of North American integration investigated in the monograph.

The important thing is that T. Lavrovskaya's research contains a solid theoretical study of a general conceptual model of regional integration—both capitalist and socialist. Its importance lies not only in the original methodology proposed for the first time for evaluating quantitative manifestations of integration with the use of mathematical economic models. In the process of improving and intensifying socialist integration, it is possible to use many—including the above-cited—theoretical conclusions and principles from the reviewed work revealing the patterns and features of the North American integration model. In particular, it is possible to agree with the author who believes that the fetishization of the role of the state in integration, the striving for total statization should be rejected (p 256). The monograph unquestionably makes a new stride in Soviet research on economic and political patterns in world and regional integration processes.

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